Report for the G7 Okinawa Summit

Basel Committee on Banking Supervision

Basel
May 2000

Report for the G7 Summit

This report prepared for the Group of Seven (G7) Finance Ministers and Central Bank Governors discusses the Basel Committee on Banking Supervision's continuing efforts to provide guidance on key banking supervisory issues as a means of promoting stability in the global financial system. This report also highlights some of the efforts the Committee is co-ordinating with other organisations, such as the International Association of Insurance Supervisors (IAIS), International Organisation of Securities Commissions (IOSCO), the IMF, and the World Bank.[1]

Among its most significant accomplishments over the past year, the Committee has:

- Released a consultative paper on a new capital adequacy framework, and continues with its comprehensive reform of the 1988 Basel Capital Accord. In developing a more risk reflective capital framework, the Committee continues to actively consult with industry participants through formal written comments and working level meetings with industry associations, banks and non-G10 supervisors;

- Continued to foster full implementation of the Core Principles for Effective Supervision, particularly through the release of *The Core Principles Methodology*, which has proven to be an important tool in the compliance assessments conducted by the IMF and World Bank;

- Completed a timely review of the international accounting standards of significant importance to the banking sector and is now actively working with the International Accounting Standards Committee (IASC) on IAS 30, a special disclosure standard for banks, and IAS 39, which significantly extends the use of fair value accounting for financial instruments in most countries;

- Promoted enhanced transparency through a variety of efforts, including its work on market discipline as the third pillar of the new capital adequacy framework; sound practices for loan accounting and disclosure; credit risk disclosure; and disclosure of trading and derivative activities;

- Issued an analysis and a sound practices paper regarding banks' interactions with highly leveraged institutions (HLIs), the first of a series of papers issued following the near-collapse of Long-Term Capital Management (LTCM). One year after releasing this guidance, the Committee also prepared an assessment of the steps banks have taken to better manage their involvement with HLIs, and a discussion of follow-up work to be undertaken by the industry and supervisors;

---

[1] The Committee also works closely with the Joint Forum on a variety of supervisory issues. A report prepared by the Joint Forum detailing its activities has been communicated separately.

- Released guidance and policy papers on a wide range of supervisory matters of importance to both industrialised countries and emerging markets, such as credit risk management, corporate governance, risk concentrations, and managing liquidity risk;

- Intensified efforts to evaluate the risks associated with electronic banking activities and to develop supervisory guidance;

- Further strengthened its commitment to emerging markets through a number of initiatives including the provision of technical assistance and training, and sponsorship of the International Conference of Banking Supervisors (ICBS); and

- Provided leadership for the financial sector regarding Year 2000 challenges.

This report is organised in the following manner. The first and second sections discuss the Basel Committee's work in revising the capital adequacy framework and its commitment to full implementation of the Core Principles for Effective Banking Supervision, two areas of work specifically referenced in the 1999 Köln Communiqué. Sections three through six correspond to the following priority areas identified by the G7 Finance Ministers and Central Bank Governors: (i) review of international accounting standards; (ii) enhancing transparency and promoting best practices; (iii) strengthening financial regulation in industrialised countries; and (iv) strengthening financial systems in emerging markets. The last two sections of this report describe the Committee's leadership role regarding the century date change, and the policy papers the Committee has released over the past year.

I. New Capital Adequacy Framework

In June 1999, the Basel Committee released a consultative paper for a new capital adequacy framework. The Committee's review of the Basel Capital Accord is aimed at developing a capital framework that more accurately and comprehensively captures risk, including risks other than credit and market risks. The Committee also believes that the revised Accord should focus on internationally active banks, although its underlying principles should be suitable for application to banks of varying levels of complexity and sophistication in all countries.

The June consultative paper represents an evolution in the Committee's approach to capital adequacy because, in addition to establishing minimum capital requirements that are more risk reflective, it places increased emphasis on the supervisory review of capital adequacy and the role of market discipline. These elements – minimum capital standards, supervisory review and market discipline – represent the "three pillars" of the new capital adequacy framework. Together they mutually reinforce safety and soundness by aligning capital relative to risk and by encouraging prudent risk management. What follows is a discussion of some of the related work the Committee currently has underway.

Pillar 1: Minimum capital requirements

With regard to Pillar 1 – minimum capital requirements – the Committee is currently working to develop over the course of the remainder of this year both a revised standardised approach and an internal ratings-based approach. The consultative paper released in June described the revised standardised approach as building on the current Accord by tying risk weights to external credit assessments, such as credit ratings. In other words, OECD membership would no longer be relied upon for setting regulatory capital for sovereign or bank claims. Since release of the consultative paper in June, the Committee has been working actively with the banking industry and supervisors to further develop this approach. In considering suitable options, the Committee recognises that it will have to balance technical complexity with a realistic understanding of practical considerations.

The Committee also is actively exploring how to link banks' internal ratings to a regulatory capital scheme. It is seeking to develop flexible approaches since all banks wishing to use internal ratings may not yet be able to generate the complete set of information necessary to tie ratings to capital requirements. Thus, for at least some banks, the Committee is investigating the possibility that some of the information may have to be supplied by the supervisor, even while the core elements may be supplied by a bank's internal ratings scheme.

As an important first step in developing an internal ratings-based approach, the Committee consulted with around 30 institutions across the G10. It did so to gather information about banks' internal ratings systems and to assess both "best" practice and overall sound practice in this area. In January of this year, the Committee released a paper on the range of current practices in banks' internal rating systems. As the Committee builds on this work to develop operational proposals, it will focus on the necessity of banks having in place robust standards and procedures governing the assignment of internal ratings. There also is a need for the Committee to establish appropriate supervisory guidance and to work to ensure that disclosure practices play an important role in the ongoing supervisory validation of these approaches.

Looking further ahead, the Committee will closely monitor developments in portfolio credit risk modelling for its possible use in regulatory capital calculations. Such models, based on internal ratings and other factors, are designed to capture the credit risk inherent in a bank's portfolio as a whole – an important element not found in approaches based solely on external credit assessments or internal ratings. While the Committee welcomes the use already made of these models in some banks' risk management systems because of a number of difficulties, including data availability and model validation, credit risk models are not yet at the stage where they can play an explicit part in setting regulatory capital requirements. The Committee intends to monitor closely progress on these issues.

The existing Capital Accord specifies explicit capital charges only for credit and market risks (in the trading book). Additional risks, including interest rate risk in the banking book and operational risk, are also an important feature of banking. The Committee is therefore proposing to develop capital charges for interest rate risk in the banking book for banks where interest rate risk is significantly above average, and for other risks, principally operational risk.

Another element the Committee is examining relates to the capital treatment of credit risk mitigation techniques, such as the use of collateral, guarantees, and credit derivatives. As part of this effort, the Committee recently consulted with over 50 banks and industry associations within the G10 on their methods for mitigating credit risk. In January 2000, the Committee released a summary of the views expressed by these institutions *(Industry Views on Credit Risk Mitigation)*, which is intended to prompt further discussions with the industry on the topic. The Committee is now evaluating how best to incorporate the risk reducing benefits of such techniques in the new capital framework, while at the same time addressing potential residual risks that may arise form their use.

Pillar 2: Supervisory Review of Capital Adequacy

The Committee views supervisory review of capital adequacy as a critical complement to minimum capital requirements. Under the second pillar of the new capital framework, the Committee proposes that supervisors should ensure that each bank has sound internal processes in place to assess the adequacy of its capital based on a thorough evaluation of its risks. Supervisors would in evaluating the strengths and weaknesses of a bank's internal allocation processes draw on, among other things, their knowledge of best practices across institutions. The Committee is now actively engaged in further expanding on the supervisory concepts outlined in the consultative paper.

Pillar 3: Market Discipline

Market discipline is the third pillar of the new capital adequacy framework. It is clear to the Committee that market discipline is only as effective as the quality of public disclosures by financial institutions. As discussed in more depth in section IV of this report, the Committee released in January 2000 a consultative paper on market discipline (*A New Capital Adequacy Framework: Pillar Three – Market Discipline, Consultative Paper*). This report discusses the rationale for enhanced capital disclosures and elaborates on disclosures that should be made in order to advance the role of market discipline in promoting bank capital adequacy.

Next steps

An important objective of the June consultative paper was to convey the Committee's thinking and to solicit the industry's input on the proposals for revising the capital adequacy framework. The paper's release has resulted in a great deal of dialogue between the Committee and industry participants and supervisory authorities in both G10 and non-G10 countries. Non-G10 supervisors have played a particularly important role in the consultative process as members of the Committee's Working Group on Capital of the Core Principles Liaison Group. To date, the Working Group on Capital, in which the IMF and World Bank are active participants, has on several occasions provided the Committee with its views on how the proposed revisions to the Capital Accord may affect banks in emerging market countries.

The Committee was very pleased by the response to the capital consultation process, which ended on March 31, 2000. Over 200 comments have been received from a wide range of industry participants, including banks of varying sizes, banking associations, central banks, supervisory authorities, and rating agencies. As a follow-up to this formal consultative period, the Committee has established several review teams comprised of national supervisors to ensure that all of the comments received are thoroughly evaluated and taken into consideration. The Committee has also held extensive bilateral discussions and continues to work with supervisors in G10 and non-G10 countries and industry participants in developing a final package. Based on the views expressed by these groups and related work currently underway, the Committee aims to complete by the end of this year a second consultative paper for a revised capital adequacy framework.

II. Strengthening and reforming the international financial institutions (IFIs) and arrangements

In the 1999 Köln Report, the G7 Finance Ministers and Central Bank Governors recognised the crucial role of international supervisory and regulatory bodies in making the international financial system more robust. The Basel Committee continues to contribute to this objective through the development of global standards for prudential regulation and supervision, particularly the *Core Principles for Effective Banking Supervision* and its work in the area of cross-border banking

Core Principles for Effective Banking Supervision

One of the Committee's most important recent initiatives is the formulation of the *Core Principles for Effective Banking Supervision*, which bring together concisely in one place all of the fundamental elements needed to carry out effective banking supervision. The Committee is encouraged by the fact that approximately 120 countries have endorsed the set of twenty-five Core Principles, and have also declared their intention to implement them. Additionally, the IMF and the World Bank are relying on the Principles as a basis for judging the effectiveness of banking supervision in individual countries. The process is facilitated by the Core Principles Liaison Group, a standing Committee of six G10 and 13 non-G10 supervisory authorities founded in 1997 to oversee the implementation of the Core Principles. The IMF, World Bank and EU are also members of the Liaison Group.

In continuing the momentum toward full implementation of the Core Principles, the Basel Committee formed an ad hoc working group consisting of representatives from the Basel member countries and the IMF and the World Bank to develop more specific criteria by which to judge the level of implementation in individual countries. Senior supervisors from G10 and non-G10 countries also were consulted during the drafting process.

In October 1999, the Committee released *The Core Principles Methodology*, which adds considerably more detail, providing essential criteria for implementation of each Principle, and additional criteria for further strengthening supervision, which all countries should strive to implement. For more than a year, the IMF and the World Bank have been using the Methodology to conduct banking sector assessments in individual countries. In May 2000, the Committee brought together emerging market supervisors and the IMF and the World Bank to discuss the current state of implementation and to promote the internalisation of the lessons learned from use of the Methodology. This was part of the Committee's ongoing effort to ensure that the Core Principles remain on point and relevant to banking supervisors worldwide. The Methodology was described as having had a positive impact on the implementation process. With this in mind, the Committee plans to reassemble this group after additional experience has been gained in implementing the Principles.

Cross-border Banking

The Basel Committee has a long history of developing basic principles and standards for the supervision of cross-border banking, starting with the release of the Basel Concordat in 1975. The Committee's work in this area has included defining the responsibilities of both home and host supervisors, and seeking to ensure that all supervisors are able to carry out these responsibilities to the best of their ability. The principal problems have proved to be impediments to the ability of home country supervisors to obtain adequate information about the foreign offices of their banks.

Most recently, the Committee has focused its attention on determining the degree of progress countries have made in implementing the Committee's 1996 recommendations regarding cross-border banking. The twenty-nine recommendations presented in *The Supervision of Cross-Border Banking (October 1996)* were designed to strengthen the ability of home country supervisors to practice consolidated supervision. The Basel Committee conducted two surveys on supervisors' recent experiences with cross-border banking. The first involved about 100 countries that participated in the last International Conference of Banking Supervisors, and the second was targeted to Basel Committee members. The results of these surveys revealed that the situation has improved since 1996, especially as far as the ability to conduct cross-border inspections is concerned but, as legislation is often required, the process can be a slow one. This effort also helped the Committee to begin to identify jurisdictions with outstanding problems.

Looking forward, the Committee plans to focus on the implementation of anti-money laundering measures through the development of sound practices for managing and controlling reputational risk, particularly in cross-border relationships. Representatives of the Committee will also continue to participate actively in the Financial Stability Forum's effort on offshore centres, which includes the development of a formal process for assessing offshore compliance with international standards.

III. International Accounting Standards

At their October 1998 meeting, the G7 Finance Ministers and Central Bank Governors asked the Basel Committee, IOSCO and the IAIS to undertake a timely review of the international accounting standards issued by the IASC. The Basel Committee has completed its review as presented in its *Report to G7 Finance Ministers and Central Bank Governors on International Accounting Standards*, which focused on the accounting standards that have a significant effect on banks. While the Committee did not identify any supervisory concerns for many of the IAS standards other than IAS 30 and IAS 39 discussed below, it noted in its report that in some cases supervisors may want to consider adjustments for capital adequacy purposes.

The Committee is currently working with the IASC on two accounting standards of particular importance to banks where substantial progress is being made. The first standard is IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* last updated in 1991, which the Committee believes should be revised to reflect current best practice regarding banks' disclosure of risk exposures and risk management policies. As a result, the IASC has established a steering committee with representation by bankers, the Basel Committee and other groups to evaluate the need to revise the standard.

A joint Basel Committee/IASC working group has been working on issues concerning IAS 39 *Financial Instruments: Recognition and Measurement*. This accounting standard significantly expands the use of fair value accounting for financial instruments in most countries. During its review of IAS 39, the Committee identified the need for detailed implementation guidance given the complexity of this standard. It also expressed concerns regarding the hedging provisions of IAS 39. In response to discussions held by the joint Basel Committee/IASC working group, the IASC is developing draft implementation guidance which, among other things, is expected to better link the IAS 39 hedging guidance to banks' risk management practices.

The Basel Committee's efforts to strengthen accounting practices worldwide include its participation in the International Forum on Accountancy Development (IFAD) as an observer. Among its objectives, IFAD is dedicated to promoting sound accounting and auditing practices and transparent financial reporting in emerging markets.

IV. Enhancing transparency

The Basel Committee is firmly committed to improving public disclosure and market discipline. Over the past year, it has continued in its work to promote enhanced transparency in national and international banking systems as a complement to prudential supervision. As the Committee has emphasised in many of its policy papers, including the consultative paper for a new capital adequacy framework, that transparency is critical to market discipline, which is only effective if market participants have access to timely and reliable information. The Committee's on-going efforts to enhance transparency and to promote best practices are illustrated by its issuance of the following papers.

Pillar Three of the New Capital Adequacy Framework – Market Discipline

The Committee, in its June 1999 consultative paper, identified market discipline as one of the "three pillars" of the new capital adequacy framework. In doing so, the Committee acknowledged the potential for market discipline to reinforce capital regulation and other supervisory efforts aimed at promoting safety and soundness in banks and financial systems. To this end, the Committee has been working to formulate a set of disclosure requirements, which take into account banks' proprietary needs. In January 2000, the Committee issued by way of a consultative paper (*A New Capital Adequacy Framework: Pillar 3 – Market Discipline, Consultative Paper)* detailed guidance designed to support and strengthen the third pillar of the new capital framework. The paper provides recommendations on disclosures of banks' structure of capital, risk exposures and capital adequacy. The Committee recognises that it may need to expand on these recommendations as the capital framework is further developed.

Sound Practices for Loan Accounting and Disclosure

In July 1999, the Committee issued *Sound Practices for Loan Accounting and Disclosure*, which addresses a range of issues facing banks and bank supervisors in accounting for loans and loan losses. The publication of this paper is a component of the Committee's long-standing work to promote effective banking supervision and safe and sound banking systems. It complements the Basel Core Principles in the field of accounting and disclosure for banks' lending businesses and related credit risk. Specifically, the document sets out supervisors' views on sound loan accounting and disclosure practices for banks, and also serves as a basic framework for supervisory evaluation of banks' policies and practices in these areas.

Best Practices for Credit Risk Disclosure

This paper, also issued in July 1999, provides guidance on best practices for public disclosure of credit risk in banking institutions. The Committee believes that transparency in this area is particularly important since weak credit risk management and poor credit quality continue to be a dominant cause of bank failures and banking crises worldwide. This best practices guidance is intended to encourage banks to provide market participants and supervisors with the information they need to make meaningful assessments of a bank's credit risk profile. The recommended disclosures include information regarding a bank's accounting policies and practices, credit risk management, credit exposures, credit quality, and earnings.

Recommendations for Public Disclosure of Trading and Derivatives Activities of Banks and Securities Firms

The Basel Committee and the IOSCO Technical Committee released in October 1999 updated guidance to banks and securities firms on public disclosures in the trading and derivatives areas. The document, based on input provided by financial analysts and industry practitioners from around the globe, identifies categories of information, which, if publicly disclosed, will greatly assist markets and counterparties in undertaking sound risk assessments of financial institutions' that engage in these activities. This initiative forms part of a continuing effort by the Basel Committee and the IOSCO Technical Committee to encourage banks and securities firms to provide market participants and the general public with meaningful information on their trading and derivatives activities.

V. Strengthening financial regulation in industrialised countries

Progressively over recent years, the Committee has been actively expanding its links with supervisors in non-member industrialised countries with a view toward strengthening prudential supervisory standards in all the major financial markets in G10 and non-G10 countries. These efforts have taken a number of different forms, including the Committee's recent work on a wide range of supervisory matters of import to industrialised countries, such as credit risk management, corporate governance, management of liquidity risk, banks' exposures to highly leveraged institutions, lessons to be drawn from the Asian crisis, and electronic banking.

Credit Risk Management

As recent experience has shown, weak credit risk management practices and poor credit quality can pose a serious threat to the stability of banks and banking systems. In July 1999 the Committee issued as a package several documents (including *Sound Practices for Loan Accounting and Disclosure* and *Best Practices for Credit Risk Disclosures* as discussed earlier) to help strengthen credit risk management at banks.

One of the papers in this credit risk package is *Principles for the Management of Credit Risk.* Although the principles contained in this consultative paper are most clearly applicable to the business of lending, the Committee believes that they should be applied to all activities where credit risk is present. The paper is organised around 17 principles related to: (1) establishing an appropriate credit risk environment; (2) operating under a sound credit granting process; (3) maintaining an appropriate credit administration, measurement and monitoring process; (4) ensuring adequate controls over credit risk; and (5) the role of supervisors.

The package also includes *Supervisory Guidance for Managing Settlement Risk in Foreign Exchange Transactions* because settlement risk clearly has a credit risk dimension. The guidance contained in this paper builds on the work undertaken by the Basel-based Committee on Payment and Settlement Systems. It emphasises that foreign exchange settlement risk should be managed through a formal process, including appropriate policies, procedures and limits, and with adequate senior management oversight. The paper also includes a list of possible questions related to foreign exchange settlement risk for supervisors to ask banks during on-site reviews.

Corporate Governance

In September 1999, the Basel Committee issued *Enhancing Corporate Governance in Banking Organisations*. It is intended to promote the adoption of sound corporate governance practices as supervisors worldwide implement the Core Principles for Effective Banking Supervision. The paper draws on Basel member countries' supervisory experiences with corporate governance problems at banking organisations and suggests the types of practices that could help to avoid such problems. It also identifies a number of practices as critical elements of any corporate governance process.

Sound Practices for Managing Liquidity

The Committee released in February 2000, *Sound Practices for Managing Liquidity in Banking Organisations*. The Committee believes that liquidity – the ability to fund increases in assets and to meet obligations as they become due – is critical to the ongoing viability of any banking organisation. Further, the importance of liquidity transcends the individual bank since a liquidity shortfall at a single organisation can have systemic repercussions. Hence, the analysis of liquidity requires bank management not only to measure the liquidity position of the bank on an ongoing basis but also to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions.

In this paper, the Basel Committee has focused on developing a greater understanding of the way in which banks manage their liquidity on a global, consolidated basis. Recent technological and financial innovations have provided banks with new ways of funding their activities and managing their liquidity. In addition, a declining ability to rely on core deposits, increased reliance on wholesale funds, and recent turmoil in financial markets globally have changed the way banks view liquidity. The Committee has therefore seen fit to replace the existing 1992 paper on liquidity, *A Framework for Measuring and Managing Liquidity*, with this updated guidance.

Highly Leveraged Institutions (HLIs)

In January 1999, four months after the near-collapse of LTCM, the Committee issued a paper on banks' dealings with HLIs (*Banks' Interactions with Highly Leveraged Institutions)*. This paper analysed the quality of banks' risk management practices with regard to HLIs and discussed the related supervisory and regulatory issues. Concurrently, the Committee issued in January 1999 a related paper, *Sound Practices for Banks' Interactions with Highly Leveraged Institutions*, which calls on banks to strengthen their risk management practices for counterparty credit exposures to the HLI sector. These two papers provided important source material for the HLI working group of the Financial Stability Forum, whose report was released in early April.

In January 2000, one year after the publication of its original analysis and sound practices paper, the Committee released an assessment of the response to its recommendations, *Banks' Interactions with Highly Leveraged Institutions: Implementation of the Basel Committee's Sound Practices Paper*. Overall, the Committee recognises that progress has been made in the field since the release of it report in early 1999. Whereas a general consensus has emerged regarding the need for banks to increase the management of counterparty exposures vis-à-vis HLIs, the development and implementation of advanced risk management techniques has proven to be more difficult in some cases. As HLIs are expected to remain important players in the financial markets, a joint Basel Committee/IOSCO working group on HLIs has been established to review outstanding technical issues regarding the risk management of HLI exposures, and to monitor general industry development of risk management techniques.

Supervisory Lessons to be Drawn From the Asian Crisis

In June 1999, the Committee released a working paper that draws lessons from the 1997-1998 Asian financial crisis for G10 banks and their supervisors, particularly in relation to the Basel Capital Accord and the Core Principles. The working group's findings and conclusions are intended to address the issues raised not only in Asia, but in emerging markets more generally. The paper makes a number of recommendations relating to the quantitative solvency requirements, the qualitative supervisory review process, and some other areas. It also identifies a number of changes in the practice of supervisors, banks and ratings agencies in the area of country risk measurement and management that have already taken place in reaction to the crisis.

Electronic Banking

In recognition of the rapid evolution in technology and the important role that it will continue to play, the Basel Committee has intensified its efforts to evaluate the supervisory issues stemming from developments in electronic banking via the Internet and other emerging technologies. The Committee is currently working to produce broad and more consistent supervisory guidance for the treatment of electronic banking. Specifically, the Committee is focusing on the development of supervisory guidance on cross-border issues; risk management and technology issues; and consumer protection and transparency issues associated with Internet banking.

VI. Strengthening financial systems in emerging markets

The Committee has a firm commitment to strengthening financial systems in emerging markets. This is done in part through the release of policy papers such as those discussed in other sections of this report, which are designed for applicability to supervisors worldwide. The Committee also engages in frequent dialogue with non-G10 supervisors and IMF and World Bank officials in the context of its many efforts currently underway. As mentioned in Section II of this report, a key element in this process is the work of the Core Principles Liaison Group. As discussed in more detail below, the Committee also plays an active role in the provision of technical training and assistance through the Financial Stability Institute. Additionally, the Committee is actively working to maintain efficient communication channels through the preparation and regular distribution of the *Bank Supervisors' Contact List*, and through sponsorship and organisation of the biennial International Conference of Banking Supervisors.

Training and Support Initiatives

The Basel Committee recognises the importance of effective training and seminar programs among the global bank supervision community. These programs are particularly beneficial in allowing supervisors from different countries to share experiences and exchange ideas for improved practices. Building on its longstanding commitment to these outreach efforts, the Basel Committee together with the Bank for International Settlements jointly established the Financial Stability Institute in 1998. The Institute has been active in providing leadership training targeted to supervisors in emerging markets, facilitating technical assistance in individual countries, and providing training on a regional basis. The Committee also continues to support the regional supervisory groups, currently numbering eleven, through participation in their annual meetings. These meetings provide a forum for non-G10 supervisors to stay current on and provide input to the work of the Basel Committee.

Bank Supervisors' Contact List

The Bank Supervisors' Contact List, maintained by the Basel Committee Secretariat, contains the names, addresses, and telephone and fax numbers of key contacts at banking supervisory agencies in individual countries. This list is a critical resource document for supervisors, not only in times of banking system stress but also as a tool in facilitating global supervisory contacts. The Bank Supervisors' Contact List is distributed not only to banking supervisors but also to IOSCO and the IAIS.

International Conference of Banking Supervisors (ICBS)

The ICBS is a biennial meeting of banking supervisors from around the world, which was initiated by the Basel Committee in 1979. The ICBS provides supervisors with a regular forum to discuss supervisory issues of mutual concern and to strengthen relationships among supervisors from different countries.

The eleventh ICBS will be held in Basel, Switzerland in September 2000, and will be co-hosted by the Swiss National Bank, the Swiss Federal Banking Commission, and the Bank for

International Settlements. The workshops and panels for this conference, which are typically structured around two themes, will focus on the (i) Basel Committee's *Review of the Capital Accord*, and (ii) the *Financial Industry in the 21st Century*. The success of the ICBS can be measured in part by the marked growth in attendance figures to 280 delegates from 120 countries for the September 2000 conference from about 150 delegates from 60 countries in 1979.

VII. Year 2000

The Basel Committee was effective in providing leadership for the financial sector in addressing the Year 2000 challenge. During the period leading up to the century date change, the Committee issued *Year 2000 Cross-Border Communications between Supervisors during the Millennium Period* along with *Gathering Year 2000 Information From Financial Institutions: Recommendations for Supervisors*. Efforts such as these, along with regional group meetings, Y2K workshops and a special supervisory contact list organised by the Basel Committee were instrumental in promoting co-operation and co-ordination among banking supervisors in their preparations regarding the century date change. In March 2000, the Committee issued a follow-up note to bank supervisors, which reviews a number of lessons that can be drawn from the Y2K experience. It was prepared specifically from a banking perspective, but its lessons are equally appropriate for the insurance and securities sectors. The lessons include: (i) greater self-disclosure by both banks and supervisors about operational issues would bring tangible benefits and instil public confidence; (ii) banks should be encouraged to develop good industry practice co-operatively on a wider scale; and (iii) reporting is most effective when clearly defined in terms of priority and materiality.

VIII. Basel Committee Publications

To enhance transparency and to promote best practices, the G7 Finance Ministers, in their Köln Report, attached high priority for supervisory authorities on an individual basis to compile their policy standards and recommendations into a common reference. The Basel Committee is committed to encouraging the improvement of banking supervision techniques through public dissemination of its papers primarily via its internet site.

Compendium of Basel Committee Documents

The Committee prepares a *Compendium of Documents Produced by the Basel Committee on Banking Supervision*, which was first issued in April 1997. The Compendium represents a comprehensive set of statements concerning ongoing supervisory policy that the Committee has issued over the years. It also serves as a supplement to the Core Principles in that the documents contained therein provide more detailed guidance on numerous specialised topics. To ensure that its work products are widely available, the Committee has since 1999 been issuing an updated version of the English version of the Compendium on a yearly basis, and is currently producing a CD-ROM version of the latest edition of the Compendium, which was issued in March 2000.

Publications and Working Papers

Over the past year, the Basel Committee has released to the public 26 policy documents and two working papers. As previously noted, all of the documents listed below can be obtained from the Basel Committee's internet site.

Publications

- *Basel Committee review of international accounting standards,* April 2000.
- *Sound Practices for Managing Liquidity in Banking Organisations,* February 2000
- *Banks' Interactions with Highly Leveraged Institutions: Implementation of the Basel Committee's Sound Practices Paper,* January 2000
- *Industry Views on Credit Risk Mitigation,* January 2000
- *Range of Practice in Banks' Internal Ratings Systems, Discussion paper,* January 2000
- *A New Capital Adequacy Framework: Pillar 3 - Market Discipline, Consultative Paper,* January 2000
- *Trading and Derivatives Disclosures of Banks and Securities Firms* (Joint report by the Basel Committee on Banking Supervision and the Technical Committee of IOSCO), December 1999
- *Risk Concentrations Principles* (Joint report by the Basel Committee on Banking Supervision, IOSCO and IAIS), December 1999
- *Intra-Group Transactions and Exposures Principles* (Joint report by the Basel Committee on Banking Supervision, IOSCO and IAIS), December 1999
- *The Core Principles Methodology,* October 1999
- *Recommendations for Public Disclosure of Trading and Derivatives Activities of Banks and Securities Firms,* October 1999
- *Year 2000 Cross-Border Communications between Supervisors during the Millennium Period,* September 1999
- *Gathering Year 2000 Information from Financial Institutions: Recommendations for Supervisors,* September 1999
- *Performance of Models-Based Capital Charges for Market Risk: 1 July-31 December 1998,* September 1999
- *Enhancing corporate governance in banking organisations,* September 1999
- *Sound Practices for Loan Accounting and Disclosure,* July 1999
- *Principles for the Management of Credit Risk,* July 1999
- *Best Practices for Credit Risk Disclosure,* July 1999
- *Supervisory Guidance for Managing Settlement Risk in Foreign Exchange Transactions,* July 1999
- *Intra-Group Transactions and Exposures and Risk Concentrations Principles,* July 1999

- *A new capital adequacy framework,* June 1999
- *Credit Risk Modelling: Current Practices and Applications,* April 1999
- *Recommendations for Public Disclosure of Trading and Derivatives Activities of Banks and Securities Firms* (Joint report by the Basel Committee on Banking Supervision and the Technical Committee of the IOSCO), February 1999
- *Supervision of Financial Conglomerates* (Joint report by the Basel Committee on Banking Supervision, IOSCO and IAIS), February 1999
- *Sound Practices for Banks' Interactions with Highly Leveraged Institutions,* January 1999
- *Banks' Interactions with Highly Leveraged Institutions,* January 1999

Working Papers

- *Supervisory lessons to be drawn from the Asian crisis* , June 1999
- *Capital requirements and bank behaviour: the impact of the Basel Accord*, April 1999