

Recent initiatives by Basel-based committees and the Financial Stability Forum

Basel Committee on Banking Supervision

The BCBS launches a third quantitative impact survey ...

In October, the Basel Committee on Banking Supervision (BCBS) launched its third quantitative impact survey, called QIS 3, a comprehensive field test to gauge the effects of the proposed minimum capital requirements under Pillar 1 of the New Basel Capital Accord. The test was undertaken with the goal of gathering information about whether further modifications would be necessary prior to the release of a new formal package for consultation in the spring of 2003. The QIS 3 is in three parts: a questionnaire, a set of instructions for completing the questionnaire and a technical guidance paper setting out the common capital requirements in detail.¹

... examines cross-border electronic banking ...

In the same month, the BCBS also released a paper on the management and supervision of cross-border electronic banking activities.² The discussion contained in the document supplements that of an earlier paper, stressing the need for banks to integrate cross-border e-banking risks into their overall risk management framework.³ The new paper has two main areas of focus. The first is to identify banks' risk management responsibilities with respect to cross-border e-banking. The second looks at the need for effective home country supervision of cross-border e-banking activities as well as continued international cooperation between banking supervisors regarding such activities.

... and discusses new elements of securitisation

Also in October, the BCBS published a second working paper on the treatment of asset securitisation.⁴ The rapid growth of securitisation makes it essential to develop a robust treatment in the New Basel Capital Accord. The purpose of the paper is to discuss some of the new elements of the securitisation framework, such as improvements to the internal ratings-based

¹ See *Overview paper for the impact study*, BCBS, October 2002, at www.bis.org.

² See *Management and supervision of cross-border electronic banking activities*, BCBS, October 2002, at www.bis.org.

³ See *Risk management principles for electronic banking*, BCBS, May 2001, at www.bis.org.

⁴ See *Second working paper on securitisation*, BCBS, October 2002, at www.bis.org.

(IRB) treatment, as well as those concerning liquidity facilities and structures containing early amortisation features. They are all aimed at improving the risk sensitivity of the minimum capital requirements. The BCBS is also seeking input on the supervisory review component (Pillar 2) of the securitisation framework.

Committee on Payment and Settlement Systems

In November, the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) released a report entitled *Assessment Methodology for "Recommendations for Securities Settlement Systems"*.⁵ The new report sets out a clear and comprehensive methodology for use in the assessment of such systems. The methodology is primarily intended for use in self-assessments by national authorities or in peer reviews of such self-assessments. It is also intended to serve as guidance for other international financial institutions (eg the IMF and the World Bank) conducting a Financial Sector Assessment Program, and for other forms of technical assistance.

The CPSS details how to assess securities settlement systems

Financial Stability Forum

In October, the Financial Stability Forum (FSF) held a regional meeting in which participants from the Asia-Pacific region exchanged views on vulnerabilities in domestic and international financial systems. The meeting, which took place in Beijing, China, was the second of its kind in the region. Senior representatives from finance ministries, central banks, and supervisory and regulatory authorities of six FSF member economies and nine regional non-member economies attended the meeting. Senior officials from international institutions which are members of the FSF, as well as the Asian Development Bank, also took part in the meeting.

The participants discussed vulnerabilities in the light of a scenario of continued moderate global growth but with significant downside risks and uncertainties. They also noted that the recovery under way in many regional economies was well entrenched but could still weaken should downside risks materialise. Participants considered that the adjustments implemented in regional financial sectors following the Asian crisis were now bearing fruit. However, in a number of economies, non-performing loan (NPL) problems were regarded as a continuing challenge, especially in the context of deflationary pressures. Significant ongoing efforts were needed to restructure and dispose of past stocks of NPLs and to strengthen credit cultures to limit new NPLs.

The FSF discusses vulnerabilities in financial systems ...

⁵ In November 2001, the CPSS and the Technical Committee of IOSCO had published *Recommendations for Securities Settlement Systems*. That report had set out 19 recommendations concerning minimum standards that should be met to enhance the safety and efficiency of securities settlement systems. The recommendations are designed to cover systems for all types of securities, for securities issued in both industrialised and developing countries, and for domestic as well as cross-border trades.

They also agreed that further reforms in the financial sector should be pursued vigorously.

... and exchanges
views on
weaknesses in
market foundations

Meeting participants also exchanged views about policy responses that are necessary to address weaknesses in market foundations. Opaqueness of corporate governance practices in the region was cited as one of the factors that had led to the Asian crisis. Although progress has been made since then, it was felt that further reforms were necessary and their urgency had increased following recent corporate failures in major markets. All agreed that enhancement of corporate governance practices and strengthening of accounting and auditing practices were of critical importance. In this context, they expressed hope that an improved and coherent set of international principles and standards in these areas could be agreed upon as soon as possible so that all countries could begin to implement them.

Interest is also
expressed in the
New Basel Accord

Participants expressed continued interest in the ongoing work to finalise the New Basel Capital Accord. Some concerns were expressed about the ability of regional banks to adopt the IRB version of the New Accord given that some of them are comparatively less sophisticated. It was explained that ample time would be available for banks outside the G10 countries to make the transition to the new regime. Participants also reviewed the progress of discussions at the FSF on a number of other issues of concern to them, including highly leveraged institutions.