Jean-Claude Trichet: Announcement of Basel II

Opening remarks of Mr Jean-Claude Trichet, President of the European Central Bank and Chairman of the G10 Governors and Heads of Supervision, at the Press Conference announcing the publication of Basel II, Bank for International Settlements, Basel, 26 June 2004.

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On behalf of the G10 central bank governors and heads of bank supervisory agencies, I am pleased to announce that we endorsed the publication of the revised framework for capital adequacy known as "Basel II" at our meeting today.

This work, which was conducted by the Basel Committee on Banking Supervision, represents a landmark achievement. In particular, its comprehensive approach to risk management and bank supervision ensures that capital regulation will remain a cornerstone of safety and soundness for banking in the twenty-first century. In the same vein, Basel II will enhance banks' safety and soundness, thereby strengthening the stability of the financial system as a whole. That, in turn, will improve the ability of the financial sector to serve as a source of sustainable growth for the broader economy. I am pleased to offer this revised framework to the international community.

Today marks the culmination of nearly six years of challenging work. During those years, the Basel Committee sought to develop significantly more risk-sensitive capital requirements that are conceptually sound. At the same time, the Committee wanted to be sensitive to the characteristics of markets and supervisory systems in numerous countries. For such an effort to be successful, the Committee undertook a careful review of the existing rules and of the recent advances achieved in the industry. It consulted widely and publicly with industry representatives, other public authorities, and outside observers. The governors and heads of supervision believe that the Committee's efforts and dedication have been fruitful and invaluable, and we appreciate the dedication that all Committee members demonstrated.

Basel II builds on the solid foundation set out by the 1988 Basel Capital Accord. Indeed, the new framework will preserve key elements of the existing capital rules. This includes retaining the definition of eligible capital components; maintaining the general requirement that banks should hold total capital equivalent to at least 8% of their risk-weighted assets; and continuing the basic structure of the capital requirements for market risk that are outlined in the Committee's 1996 Market Risk Amendment.

The new framework marks a substantial step forward in creating incentives for banks to improve the quality of their risk management. One of the most significant innovations of the new framework is that it will allow banks to make greater use of their own assessments of risk as inputs to capital calculations. In that vein, Basel II will provide banks with a range of options for determining their capital requirements for credit and operational risk. This will allow both banks and supervisors to select approaches that are most appropriate for banks' operations and local financial markets.

National authorities in the G10 countries will now continue their focus on adopting and implementing the new framework through domestic rule-making processes. Consistent implementation of the new framework across borders through enhanced supervisory co-operation will become a critical and challenging task in the years ahead. We are also circulating the Basel II Framework to supervisory authorities worldwide. We encourage them to consider adopting this revised framework at a time that they believe may be consistent with their broader supervisory priorities and readiness. Yet we recognise that adopting Basel II in the near future may not be the first priority for supervisors in these other jurisdictions. They may wish to take some steps first to strengthen the capitalisation and risk management capabilities of their banks and to enhance the quality of bank supervision.

The text of Basel II will be released today on the website of the Bank for International Settlements. As the product of three global consultations and several quantitative impact studies, the Basel II Framework has evolved and strengthened considerably since it appeared first in 1999. On behalf of the G10 governors and supervisors, I would like to warmly thank all of those organisations and individuals who contributed to the process and supported the work of the Basel Committee by sharing their views over the years.

I welcome now the remarks of my colleague, Jaime Caruana, Governor of the Bank of Spain and the Chairman of the Basel Committee. Governor Caruana has devoted considerable energy and efforts to completing the work on the Basel II Framework that was launched so capably by Bill McDonough, the previous chairman of the Committee.