From Basel I to Basel III:

Sequencing Implementation in Developing Countries (IMF WP 19/127)

Seminar for Senior Bank Supervisors

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Should developing economies implement Basel III?

Universal lessons:

- Lack of capital
- Quality of capital
- Macroprudential dimension
- Liquidity requirements
- Early corrective measures
- Resolution framework

Proportionality framework

- Adjustments for size, complexity, market development, supervisory capacity,…
- Not about a new standard
- Not less conservative
- Allow convergence to international standards as market/ institutions evolve

Risk weights and capital requirements

How to approach new SA market risk?

Important

- Risk coverage
- Recognition of netting

Attention

- Small TB with simple instruments
- Banks do not have reliable pricing models

Possible way forward

- Keep BII rules (but recalibrated)
- Revise boundary
- Enforce sound valuation practices and IRRBB

How to approach new SA credit risk?

Important

- Mortgages
- Foreign currencies
- Off-balance sheet exposures

Attention

- Exposures concentrated on corporates and retail
- Problem to enforce subjective standards

Possible way forward

- Focus on relevant portfolios
- Consider going beyond Basel revisions
- Adjust parameters

How to approach new op. risk?

Important

- AMA
- Large banks
- Loss data base

Attention

- Small banks
- Implemented “gross income” approach recently

Possible way forward

- Incentivize operational loss databases
- Avoid additional reporting requirements

How to approach new capital requirements?

Important

- Loss Absorbance Capacity
- Not excessively complex

Attention

- Common Equity already majority; and
- Deductions not relevant

Possible way forward

- Simplification: “eliminate basket"
- Calibration: not reduce current level

Capital buffers

How to approach capital Buffers?

Important

- Macroprudential dimension
- Automatic escalation of actions
- Too-big-to fail

Attention

- Institutional and data limitations

Possible way forward

- Methodology for D-SIFIs
- Indicators / institutional development for CCyB
- Rules vs discretion

Leverage ratio

How to approach the leverage ratio?

Important

- Limit advanced approaches model risk
- Off-balance and 0% risk weight exposures

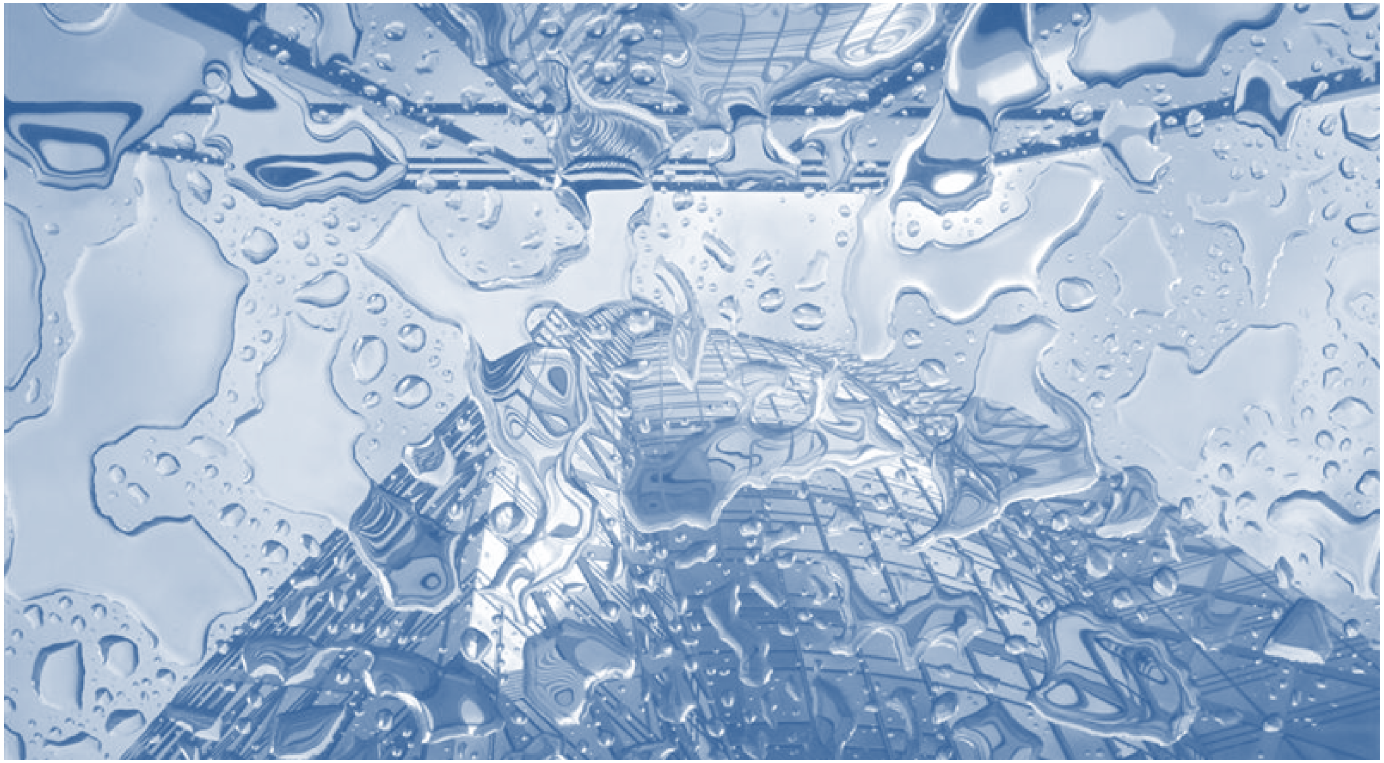
Attention

- Standardized Approaches
- Off-balance not an issue
- Not excessive low risk weight exposures (0%)

Possible way forward

- Derivatives exposures
- Calibration

Liquidity Standards: LCR / NSFR



How to approach LCR/NSFR?

Important

- Better assessment of liquidity
- Ensure Liquidity buffers

Attention

- Shallow capital markets
- No data availability
- Very liquid banks by all measures

Possible way forward

- Simplification: not necessarily so granular data
- Calibration: run-offs might need adjustment
- Start collecting the data and monitoring metric

Two final comments

Its not all about Basel III

Basel Core Principles for Effective Banking Supervision

- Get Basics right!
- Institutional framework, resources
- Supervisory approach, data
- Problem assets, Corporate governance, risk management

Timing and sequencing matters

- No one-size-fits all

- BIII Definition of capital
- BIII Capital conservation buffers
- SIBs framework
- Data collection to support liquidity and systemic risk monitoring

- Countercyclical capital buffer
- LCR
- Leverage ratio

- NSFR
- BIII - Operational risk
- BIII – Stand. approach credit risk
- New market risk framework

- Supervisory capacity
- Range of powers
- Risk-based supervision

- Inclusion of ICAAP and SREP in the supervisory process

- Disclosure requirements in parallel with risks and standards addressed in the pillar 1 and 2

Summary

- Developing Economies can benefit from implementing Basel III and other standards
- How to implement is important
- Fund has a lot to contribute to and benefit from the “proportionality” discussion.