Regulators in Accord

Basel II is set for full implementation across Europe and parts of the Middle East and Asia from this month. ***Ahmet Yetis*** *looks at the approach taken by regulators across the globe*

Almost nine years have passed since the first version of the Basel II Accord was published in 1999. The capital rules themselves, and their implementation timelines, have been revised on many occasions since. When the new Accord was finalised in 2004, the Basel Committee on Banking Supervision set the target effective dates as year-end 2006 for the basic approaches and year-end 2007 for the advanced approaches. However, most of the supervisors within those countries that decided to adopt the Basel II Accord have revised those implementation timelines according to the readiness of banks within their jurisdictions.

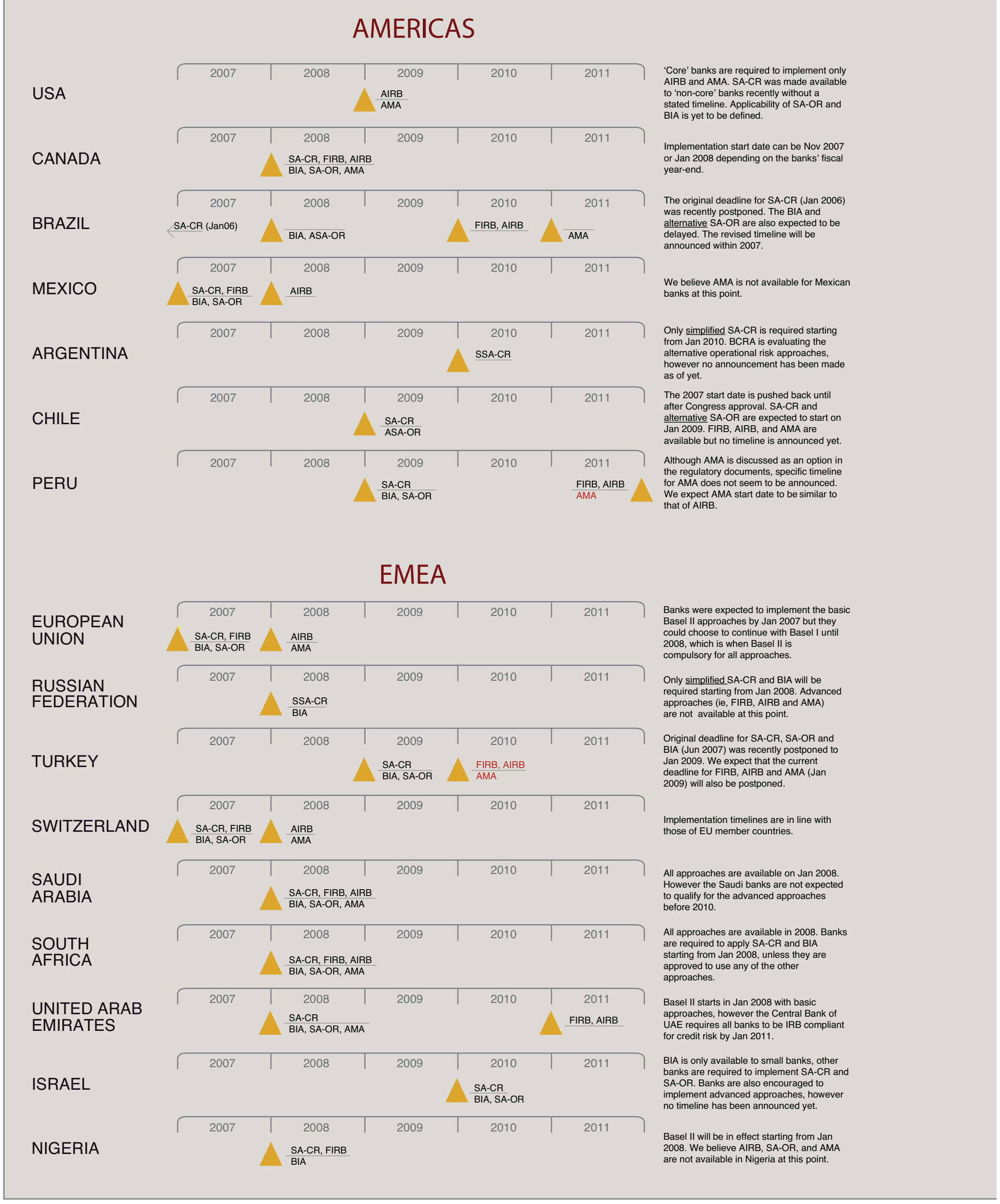
Here, we summarise timelines for Basel II implementation across the globe. The dates shown on this chart indicate the time when banks' regulatory capital will have to be calculated and reported according to Basel II rules, after any parallel-run requirements. (Banks adopting the foundation or advanced approaches must calculate their capital requirement using these approaches, as well as the 1988 Accord, for a period of one or two years prior to the dates shown on this chart.)

The Americas

Banks in the world's largest economy have had perhaps the most controversial experience in terms of Basel II implementation. Originally, only the largest US banks (also referred to as core banks) were required to implement Basel II, using the advanced approaches for credit and operational risk. Non-core banks were allowed to either opt-in – provided they met the qualification criteria of the advanced approaches – or continue using Basel I.

At one point, non-core banks were also allowed to adopt a Basel IA approach, which was a fusion of the Basel I and Basel II standardised approach for credit risk (*Risk* January 2006, pages 78–79).[1] However, US supervisors recently withdrew the Basel IA proposal and promulgated the Basel II standardised approach for non-core banks. It is expected implementation rules for these institutions will be finalised by the end of 2008. The advanced approaches were finalised and

Basel II – global implementation timelines (as of September 2007)



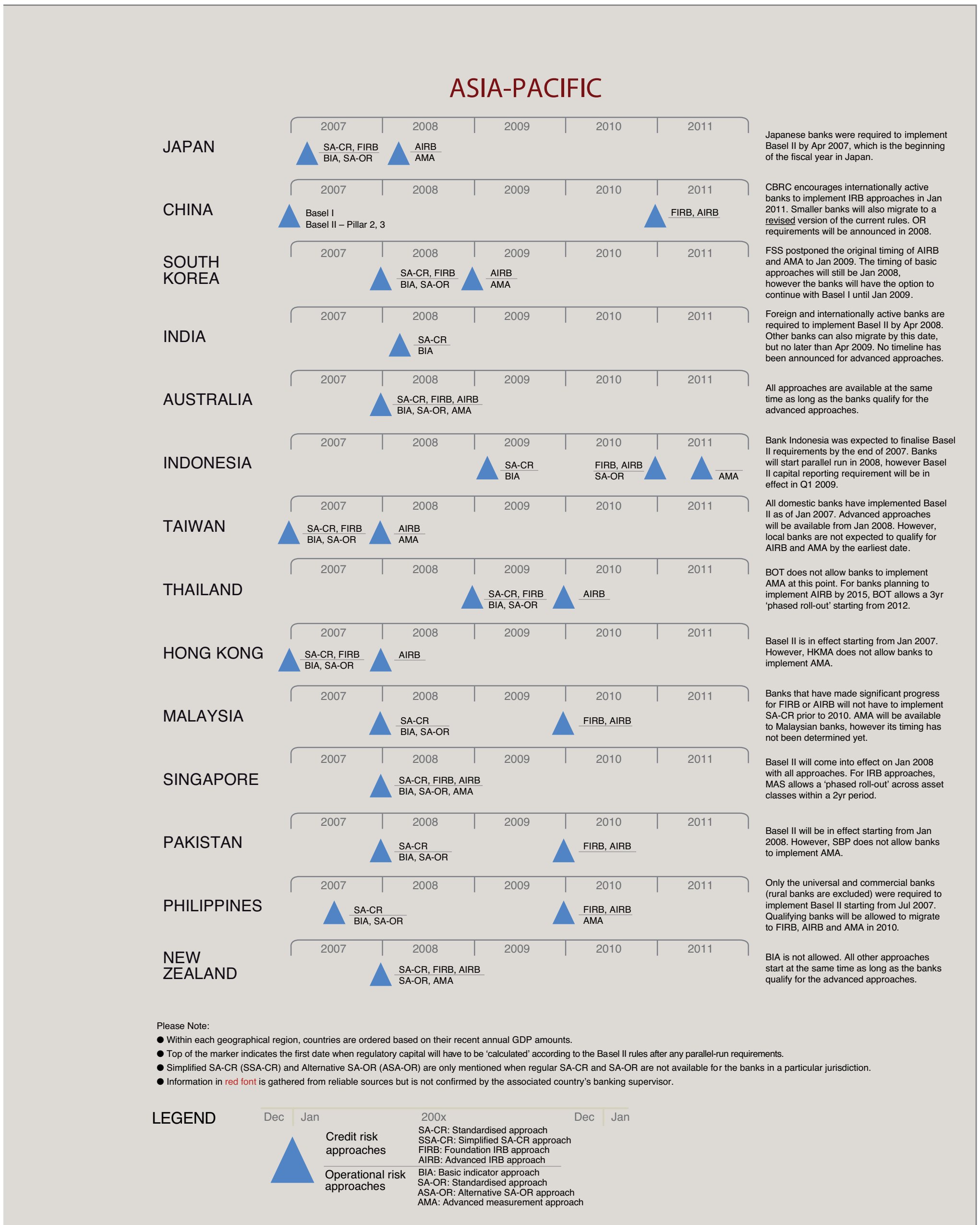
published in November 2007, more than three years after the final version of the Basel Accord.[2] Despite the lobbying efforts of four of the largest US banks, core banks are still not allowed to utilise the standardised approach.

Basel II timelines for banks in Canada and Mexico are more consistent with the Basel Committee's suggestions. The rest of the Latin American banks have an extra year or more to be Basel II-compliant.

Europe, Middle East and Africa

European banks have been at the forefront of Basel II from an implementation standpoint. Unlike the US, the European Union (EU) requires all financial institutions (regardless of size and geographic activity) to implement Basel II and make all approaches available as long as the banks qualify. Financial institutions in Europe generally began Basel II implementation projects earlier than their competitors across the Atlantic. EU banks were expected to implement the Basel II basic approaches by January 2007. However, they also have the option to continue with Basel I until 2008. From this month, Basel II will be compulsory for both basic and advanced approaches.

With few exceptions, Basel II timelines for remaining European, Middle Eastern and African countries are largely consistent with the EU. Despite the challenges of applying Basel II rules to Islamic finance, the banking supervisors of Saudi Arabia and the United Arab Emirates required their banks to be Basel II-compliant by the end of 2007.



Asia-Pacific

Asian countries vary widely in terms of the sophistication of banks and the timing of Basel II implementation. Japanese financial institutions are among the earliest adaptors, as are Taiwanese and Hong Kong banks. On the other hand, Chinese, Indonesian and Thai banks have more time to comply with the Basel II Accord. Banks in Japan, South Korea, Australia and Hong Kong are generally more sophisticated than others in the region, and major banks in these countries are inclined to target the advanced approaches early on. In contrast, advanced approaches are not available until 2010 in Malaysia, Pakistan and the Philippines.

Conclusion

In 2007, some of the banks in major economies (particularly Japan and the EU) started reporting capital adequacy ratios according to the new Basel II rules. Others (for example, Brazil, Turkey and Chile) revised implementation deadlines, primarily due to the state of their banks' readiness, or lack thereof. In 2008, the vast majority of the global banking system will have to be Basel II-compliant, although there are some exceptions, most notably the US. By the end of 2008, we expect most banks to smooth out the operational aspects of Basel II calculation and reporting, shifting focus to its impact on their businesses and start managing regulatory capital on a more proactive basis. ■

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[1] *www.risk.net/public/showPage.html?page=310632*
[2] *Note that although the Basel Committee finalised the new Accord in June 2004, a major amendment was made in July 2005 to address capital for trading activities and the treatment of double-default effects*