



Press release

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Progress towards completion of the new Basel Capital Accord

The Basel Committee on Banking Supervision today reviewed its progress toward the completion of a new Basel Capital Accord. The Committee has been significantly encouraged by the depth and extent of interaction with market participants on the working papers that it has issued in recent months. This dialogue has been extremely constructive. The direction of the Committee's proposed modifications to the revised Accord has been well received and the Committee's quantitative impact studies suggest the revised Accord is now much closer to meeting the Committee's objectives. On this basis, the Basel Committee is confident that its goal to finalise a new Capital Accord that builds on and rewards sound risk management practice can soon be achieved.

Revised approach to finalising the new Accord

The Basel Committee has set as a standard, however, that its next consultative paper must reflect the best possible effort to construct a revised Accord that meets its objectives. Accordingly, the Committee now plans to undertake an additional review aimed at assessing the overall impact of a new Accord on banks and the banking system before releasing the next consultative paper. The Committee's work during this "quality assurance" phase will focus on three issues:

- (1) Balancing the need for a risk-sensitive Accord with its being sufficiently clear and flexible so that banks can use it effectively.
- (2) Ensuring that the Accord leads to appropriate treatment of credit to small- and medium-sized enterprises, which are important for economic growth and job creation.
- (3) Finalising calibration of the minimum capital requirements to bring about a level of capital that, on average, is approximately equal to the requirements of the present Basel Accord, while providing some incentive to those banks using the more risk-sensitive internal ratings based system.

The Committee had previously planned to undertake a comprehensive quantitative impact study simultaneously with the next consultation period, but now believes that performing the impact assessment first will help to make the consultation period more constructive. Undertaking this additional review means that the Committee's next consultative paper will not be issued in early 2002, as previously indicated. Instead, the Committee will first seek to specify a complete version of its proposals in draft form, including those areas, such as

asset securitisation and specialised lending, where active dialogue with market participants is currently ongoing. Once a draft version of a fully-specified proposal has been completed, the Committee will undertake a comprehensive impact assessment of the draft proposal.

After incorporating the results of its comprehensive impact assessment, the Committee will release these proposals for a formal consultation period. All interested parties will be invited to provide comment on this consultative paper. The Committee intends to finalise the new Accord following the completion of the formal consultation period. The Basel Committee has previously announced its intention to finalise the new Accord in 2002 and for member countries to implement the new Accord in 2005. The Committee does not believe that its additional review process will be a lengthy one, and therefore is not at this time announcing a revised schedule for completion or implementation of the new Accord. However, the Committee is prepared to address the consequences that this step may have for its timetable if necessary.

Initiative to support implementation of the new Accord

In line with the Basel Committee's view of progress toward completion of the revised Accord, the Committee recognises the need to begin planning for its implementation in such a way that supervisors can share information on their efforts and thereby promote consistency in their approaches to implementation. Accordingly, the Committee is today announcing the creation of the Accord Implementation Group, to be led on behalf of the Committee by Nicholas Le Pan, Superintendent of Financial Institutions, Canada. The Group will serve as a means for supervisors to share information and approaches related to the implementation of the new Accord.

This reflects the view of the Committee that strong support for the efforts of supervisors to implement the new framework will be essential for a successful Accord.