CHAPTER - 7

THE BASEL ACCORD

7.1 The Basel I Accord

On 26th June 1974, a number of banks had released Deutschmarks to Bank Herstatt in Frankfurt in exchange for dollar payments that were to be delivered in New York. Due to differences in time zones, there was a lag in dollar payments to counter-party banks during which Bank Herstatt was liquidated by German regulators, i.e. before the dollar payments could be affected.

The Herstatt accident prompted the G-10 countries (the G-10 is today 13 countries: Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Spain, Sweden, Switzerland, United Kingdom and United States) to form, towards the end of 1974, the Basel Committee on Banking Supervision (BCBS), under the auspices of the Bank for International Settlements (BIS), comprising of Central Bank Governors from the participating countries.
BCBS has been instrumental in standardizing bank regulations across jurisdictions with special emphasis on defining the roles of regulators in cross-jurisdictional situations. The committee meets four times a year. It has around 30 technical working groups and task forces that meet regularly.

'The Committee does not possess any formal supranational supervisory authority, and its conclusions do not, and were never intended to, have legal force. Rather, it formulates broad supervisory standards and guidelines and recommends statements of best practice in the expectation that individual authorities will take steps to implement them through detailed arrangements - statutory or otherwise - which are best suited to their own national systems. In this way, the Committee encourages convergence towards common approaches and common standards without attempting detailed harmonisation of member countries' supervisory techniques. One important objective of the Committee's work has been to close gaps in international supervisory coverage in pursuit of two basic principles: that no foreign banking establishment should escape supervision; and that supervisions should be adequate.' - BCBS.

7.2 **1988 Basel Accord**

In 1988, the Basel Committee published a set of minimal capital
requirements for banks, known as the 1988 Basel Accord. These were enforced by law in the G-10 countries in 1992, with Japanese banks permitted an extended transition period.

The 1988 Basel Accord focused primarily on credit risk. Bank assets were classified into five risk buckets i.e. grouped under five categories according to credit risk carrying risk weights of zero, ten, twenty, fifty and one hundred per cent. Assets were to be classified into one of these risk buckets based on the parameters of counter-party (sovereign, banks, public sector enterprises or others), collateral (e.g. mortgages of residential property) and maturity. Generally, government debt was categorised at zero per cent, bank debt at twenty per cent, and other debt at one hundred per cent. OBS exposures such as performance guarantees and letters of credit were brought into the calculation of risk weighted assets using the mechanism of variable credit conversion factor. **Banks were required to hold capital equal to 8% of the risk weighted value of assets.** Since 1988, this framework has been progressively introduced not only in member countries but also in almost all other countries having active international banks. The 1988 accord can be summarized in the following equation:

\[
\text{Total Capital} = 0.08 \times \text{Risk Weighted Assets (RWA)}
\]
The accord provided a detailed definition of capital. **Tier 1 or core capital**, which includes equity and disclosed reserves, and **Tier 2 or supplementary capital**, which could include undisclosed reserves, asset revaluation reserves, general provisions and loan–loss reserves, hybrid (debt/equity) capital instruments and subordinated debt.

### 7.3 Value at Risk (VAR)

VAR is a method of assessing risk that uses standard statistical techniques and provides users with a summary measure of market risk. For instance, a bank might say that the daily VAR of its trading portfolio is rupees 20 million at the 99 per cent confidence level. In simple words, there is only one chance in 100, under normal market conditions, for a loss greater than rupees 20 million to occur. This single number summarizes the bank's exposure to market risk as well as the probability (one per cent, in this case) of it being exceeded. Shareholders and managers can then decide whether they feel comfortable at this level of risk. If not, the process that led to the computation of VAR can be used to decide where to trim risk.

VAR definition; *VAR summarizes the predicted maximum loss (or worst loss) over a target horizon within a given confidence interval*. Target horizon means the period till which the portfolio is held. Ideally, the holding period should correspond to the longest period needed for an orderly
(as opposed to a 'fire sale') portfolio liquidation.

Without going into the related math, it may be mentioned here that there exist three methods of computing VAR, viz. Delta-Normal, Historical Simulation and Monte Carlo Simulation, the last one being the most computation intensive and predictably the most sophisticated one.

In a lighter vein, a definition of VAR that was found at the gloriamundi.org web site said, 'A number invented by purveyors of panaceas for pecuniary peril intended to mislead senior management and regulators into false confidence that market risk is adequately understood and controlled.'

7.4 1996 Amendment to include Market Risk

In 1996, BCBS published an amendment to the 1988 Basel Accord to provide an explicit capital cushion for the price risks to which banks are exposed, particularly those arising from their trading activities. This amendment was brought into effect in 1998.

Salient Features

- Allows banks to use proprietary in-house models for measuring market Risks.
• Banks using proprietary models must compute VAR daily, using a 99th percentile, one-tailed confidence interval with a time horizon of ten trading days using a historical observation period of at least one year.

• The capital charge for a bank that uses a proprietary model will be the higher of the previous day's VAR and three times the average of the daily VAR of the preceding sixty business days.

• Use of 'back-testing' (ex-post comparisons between model results and actual performance) to arrive at the 'plus factor' that is added to the multiplication factor of three.

• Allows banks to issue short-term subordinated debt subject to a lock-in clause (Tier 3 capital) to meet a part of their market risks.

• Alternate standardized approach using the 'building block' approach where general market risk and specific security risk are calculated separately and added up.

• Banks to segregate trading book and mark to market all portfolio/position in the trading book.

• Applicable to both trading activities of banks and non-banking securities firms.
The evolution of Basel Committee’s initiatives is presented in figure 7.1.

Figure 7.1: Evolution of BASEL Committee Initiatives

The Basel I Accord and the 1996 Amendment thereto have evolved into Basel II, as depicted in the figure above.
7.5 The New Accord (Basel II)


The proposed capital framework consisted of three pillars: minimum capital requirements, which sought to refine the standardized rules set forth in the 1988 Accord; supervisory review of an institution’s internal assessment process and capital adequacy and effective use of disclosure to strengthen market discipline as a complement to supervisory efforts.

For banks adopting advanced approaches for measuring credit and
operational risk. The deadline was shifted to 2008, whereas for those opting for basic approaches it was retained at 2006.

7.6 The Need for Basel II

The 1988 Basel I Accord had very limited risk sensitivity and lacks risk differentiation (broad brush structure) for measuring credit risk. For example, all corporations carry the same risk weight of 100 per cent. It also gave rise to a significant gap between the regulatory measurement of the risk of a given transaction and its actual economic risk. The most troubling side effect of the gap between regulatory and actual economic risk has been the distortion of financial decision-making, including large amounts of regulatory arbitrage, or investments made on the basis of regulatory constraints rather than genuine economic opportunities. The strict rule based approach of the 1988 accord has also been criticised for its 'one size fits all' prescription. In addition, it lacked proper recognition of credit risk mitigants such as credit derivatives, securitisation, and collaterals.

Cases of frauds, acts of terrorism, hacking, also brought into focus the operational risk that the banks and financial institutions are exposed to. The new accord (Basel II) was claimed by BCBS to be 'an improved capital adequacy framework intended to foster a strong emphasis on risk
management and to encourage ongoing improvements in banks' risk assessment capabilities'. It also sought to provide a 'level playing field' for international competition. The new framework deliberately included incentives for using more advanced and sophisticated approaches for risk measurement and attempted to align the regulatory capital with internal risk measurements of banks subject to supervisory review and market disclosure.

7.7 **PILLAR I: Minimum Capital Requirement**

There were changes in the measurement of credit risk and operational risk.

\[
\text{Capital Ratio} = \frac{\text{Total Capital}}{\text{Credit Risk + Market Risk + Operational Risk}}
\]

- **Minimum 8%** Unchanged
- **Definition** Unchanged
- **RWA Calculations** Revised
- **No Change**
- **New Capital Charge Added**
7.7.1 Credit Risk

Three alternate approaches for measurement of credit risk were proposed under Base II. These are:

1. Standardised

2. Internal Ratings Based (IRB) Foundation

3. Internal Ratings Based (IRB) Advanced

The standardised approach is similar to the previous accord in that banks were required to slot their credit exposures into supervisory categories based on observable characteristics of the exposures (e.g. whether the exposure is a corporate loan or a residential mortgage loan). The standardised approach establishes fixed risk weights corresponding to each supervisory category and makes use of external credit assessments to enhance risk sensitivity compared to the previous accord. The risk weights for sovereign, inter-bank, and corporate exposures were differentiated based on external credit assessments. An important innovation of the standardised approach was the requirement that loans considered 'past due' be risk weighted at 150 per cent unless, a threshold amount of specific provisions has already been set aside by the bank against that loan.
Credit risk mitigants (collaterals, guarantees, and credit derivatives) could be used by banks under this approach for capital reduction based on the market risk of the collateral instrument or the threshold external credit rating of recognised guarantors.

Reduced risk weights for retail exposures, small and medium size enterprises (SME) category and residential mortgages were proposed. The approach drew a number of distinctions between exposures and transactions in an effort to improve the risk sensitivity of the resulting capital ratios.

The IRB approach used banks’ internal assessments of key risk drivers as primary inputs to the capital calculation. The risk weights and resultant capital charges were determined through the combination of quantitative inputs provided by banks and formulae specified by the Committee. The IRB calculation of risk weighted assets for exposures to sovereigns, banks, or corporate entities relied on the following four parameters:

- **Probability of default (PD)**, which measures the likelihood that the borrower will default over a given time horizon.
- **Loss given default (LGD)**, which measures the proportion of the exposure that will be lost if a default occurs.
- **Exposure at default (EAD)**, which for loan commitment measures the amount of the facility that is likely to be drawn in the event of a default.

- **Maturity (M)**, which measures the remaining economic maturity of the exposure.

The differences between foundation and advanced IRB approaches are captured in the table 7.1 below based on who provides the inputs on the various parameters:

<table>
<thead>
<tr>
<th>PARAMETER</th>
<th>FOUNDATION IRB</th>
<th>ADVANCED IRB</th>
</tr>
</thead>
<tbody>
<tr>
<td>PD</td>
<td>Bank</td>
<td>Bank</td>
</tr>
<tr>
<td>LGD</td>
<td>Supervisor</td>
<td>Bank</td>
</tr>
<tr>
<td>EAD</td>
<td>Supervisor</td>
<td>Bank</td>
</tr>
<tr>
<td>M</td>
<td>Bank or Supervisor</td>
<td>Bank</td>
</tr>
<tr>
<td>Risk Weight</td>
<td>Function provided by the committee</td>
<td>Function provided by the committee</td>
</tr>
<tr>
<td>Data Requirements</td>
<td>Historical data to estimate PD (5 years)</td>
<td>Historical loss data to estimate LGD (7 years) and historical exposure data to estimate EAD (7 years) plus that for PD estimation</td>
</tr>
</tbody>
</table>

Table 7.1: Differences between Foundation and Advanced Approaches for Internal Rating under Basel II.
For retail exposures only advanced IRB was prescribed where the maturity parameter was omitted. Securitisation, provisions and specialized lending were accorded special treatment.

### 7.7.2 Operational Risk

Within the Basel II framework, operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems, or external events. Operational risk identification and measurement is still in an evolutionary stage as compared to the maturity that market and credit risk measurements have achieved.

As in credit risk, three alternate approaches were prescribed:

- Basic Indicator
- Standardised
- Advanced Measurement (AMA)

Table 7.2 captures the provisions of the proposed accord across different approaches:
Table 7.2: Provisions of Basel II across different approaches for Operational Risk:

<table>
<thead>
<tr>
<th>BASIC INDICATOR</th>
<th>STANDARDISED</th>
<th>AMA</th>
</tr>
</thead>
</table>
| calculation of capital charge | 15 per cent of average gross income over three years | Average gross income segregated into eight business lines, viz. retail banking, retail brokerage and asset management which carry capital charge of 12 per cent; commercial banking and agency services attract 15 per cent; corporate finance, trading and sales and payment and settlement carry charge of 18 per cent. Total capital charge is the sum of capital charges | Capital charge equal internally generated measure based on:  
- internal loss data  
- external loss data  
- scenario analysis  
- business environment & internal control factors  
Risk mitigation up to 20 per cent allowed |
| Qualifying criteria | None | Active involvement of Board of directors and senior management,  
Existence of conceptually sound operational risk management system,  
Systematic tacking of loss data | Measurement integrated into day-to-day risk management  
Review of management and measurement processes by internal/external audit  
Minimum five years loss-data |

Compliance of BCBS’ 'Sound Practices for Management & Supervision of Operational Risk’ was also required.
PILLAR 2: Supervisory Review Process

Pillar 2 introduced two critical risk management concepts: the use of economic capital, and the enhancement of corporate governance, encapsulated in the following four principles:

- Principle 1: Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.

The key elements of this rigorous process are:

- board and senior management attention;
- sound capital assessment;
- comprehensive assessment of risks;
- monitoring and reporting; and
- internal control review.

- Principle 2: Supervisors should review and evaluate banks’ internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with regulatory
capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the result of this process.

This could be achieved through:

- on-site examinations or inspections;
- off-site review;
- discussions with bank management;
- review of work done by external auditors; and
- periodic reporting.

- Principle 3: Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.

- Principle 4: Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.

Prescriptions under Pillar 2 seek to address the residual risks not
adequately covered under Pillar 1, such as concentration risk, interest rate risk in banking book, business risk and strategic risk. 'Stress testing' is recommended to capture event risk. Pillar 2 also seeks to ensure that internal risk management process in the banks is robust enough. The combination of Pillar 1 and Pillar 2 attempts to align regulatory capital with economic capital.

7.9 **PILLAR 3: Market Discipline**

The focus of Pillar 3 on market discipline was designed to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). With this, the Basel Committee sought to enable market participants to assess key information about a bank’s risk profile and level of capitalization—thereby encouraging market discipline through increased disclosure. Public disclosure assumes greater importance in helping banks and supervisors to manage risk and improve stability under the new provisions which place reliance on internal methodologies providing banks with greater discretion in determining their capital needs.

There has been some confusion on the extent, medium, confidentiality and materiality of such disclosures. It has been
agreed that such disclosures will depend on the legal authority and accounting standards existing in each country. Efforts are in progress to harmonise these disclosures with International Financial Reporting Standards’ (IFRS’) Board Standards (International Accounting Standards 30 & 32).

7.10 **Between the Pillars**

In 1997, BCBS developed a set of ‘Core Principles for Effective Banking Supervision’, which provides a comprehensive blueprint for an effective supervisory system. To facilitate implementation and assessment, in October, 1999 the committee developed the ‘Core Principles Methodology’. In addition, BCBS has published ‘Sound Practices for Management and Supervision’ for various risks, which form an integral part of Basel II.

7.11 **Criticism of Basel II**

Before listing the concerns that can be voiced against Basel II, we must acknowledge the fact that any attempt to regulate the complexity that current global financial infrastructure presents is far from easy. Trying to model such complexity involves ‘modeling risk’, which can be reduced by back-testing the model,
but not eliminated entirely.

7.11.1 Pro-cyclicality

In simple terms, pro-cyclicality means that banks governed by Basel II (capital tied to risks) will loosen credit in 'good times' (when risk perceptions are low) and restrict it when times are bad (when risks rise again). If most banks act in this fashion, having adopted the accord, they would accentuate the crisis in bad times, jeopardizing stability.

Risk-based financial regulation is inherently pro-cyclic. The pro-cyclicality springs from the treatment of risk as an exogenous variable, whereas in reality, it is endogenous. The actions of a market participant based on a predictive model affects the market and if many participants are using the same model, their combined actions render the basic assumptions of the model on the heterogeneous nature of the market (normal distribution) false.

'Requiring banks to run their capital through a stress test to assess what impact worsening economic conditions will have on their loan portfolios, and requiring bank supervisors to evaluate those models independently, increases the safety of the bank.
This is one of the measures that will help the banks to be less pro-cyclical because they will have taken into account the whole (business) cycle,’ countered Jaime Caruana, Chairman of the Basel II Committee in an interview to Reuters.

7.11.2 Fearsome complexity

The US Comptroller of Currency, John D. Hawke Jr., considered CP3 (Consultative Paper 3) published by Basel Committee as having ‘mind-numbing complexity’. ‘Can anyone reasonably assume that a mandate of the complexity of Basel II will be applied with equal forcefulness across such a broad spectrum of supervisory regimes,’ asks Hawke.

The meek answer from BCBS was that the complexity of the new accord results from the complexity it seeks to address.

7.11.3 Heavy Implementation Costs

Datamonitor estimated that financial institutions worldwide will spend close to US$ 4 billion over two years on upgrading databases and other systems in order to comply with Basel II. Aberdeen Group estimated that banks will spend US $3.2 billion in the next four years preparing for Basel II. "Asian banks were
expected to spend between seven to ten per cent of their global IT and business operations budget on Basel II compliance for the next four to six years,' observed BIS.

The moot question for banks is 'what benefits will accrue from this investment?' and 'how long will the pay back period be?'

7.11.4 Credit Risk Concerns

Using the standardized approach, un-rated corporate borrowers attract less risk weight (100 per cent) than the lowest rated borrower (150 per cent) giving incentives to high-risk borrowers to remain un-rated.

Another argument against Basel II is that it does not resort to full credit risk modelling--it fails to take into account portfolio effects of risk mitigation through diversification.

7.11.5 Concerns of National Supervisors

The New Accord is also criticized on the ground of being as much prescriptive as to be lacking in trust for national supervisors. Also, Pillar 2 requires national supervisors to give up arms-length supervision in favour of participative implementation.
Supervisors also need to invest heavily in people and technology to perform their duties as envisaged in Basel II.

7.12 **Perceived Impact**

Adapting to Basel II proved to be more demanding for some PSU banks in India than for others, based on factors including current risk management practices, business size, geographical spread, risk types, specific business, portfolio, and market conditions.

7.12.1 *Impact on various entities in financial markets*

Apart from banks and regulators, who are directly affected by Basel II, customers, rating agencies, capital markets and other financial companies (outside the scope of Basel II) were also affected. Banks had to implement an enterprise-wide risk management framework, which will entail establishing relevant processes and gathering, integrating and analyzing large amount of data. Using quantitative methods to manage risk - and to deploy capital based on risks - requires high quality and high frequency data.
Customers will find that they have to cope with increased demands for timely information from banks that are on IRB approaches. Risk-based pricing of credit products will become the norm as banks begin differentiating customers as per their risk profiles. Riskier borrowers are likely to find their borrowing costs going up and/or credit lines tightened up.

Rating agencies may face more competition as the market for them will expand and deepen, which will be a driver for them to be more transparent in their rating process.

Good quality rated corporates will prefer capital markets to banks for their funding. Securitisation and credit derivatives will increasingly be used as credit risk hedging tools.

Basel II is also likely to impact financial institutions that do not have to comply with it. Non-banking corporations such as credit card companies, leasing companies, auto manufacturers and financiers, or retailers’ financing arms may not have to fulfill the potentially extensive disclosure requirements prescribed by Basel II nor make investments in managing operational risk, which will put them at a competitive advantage vis-à-vis banks.
7.12.2 Impact on emerging markets and smaller banks

In an attempt to assess the impact of Pillar 1 requirements of capital adequacy, BCBS did undertake a few quantitative impact surveys (QIS), the last of which is referred to as QIS-3. The results indicated that, in general, banks' required capital will decrease with respect to credit risks and increase with respect to operational risks. However, in Asia and other emerging markets, several factors may raise the required capital even for credit risks, as real estate continues to be widely used as collateral for business loans, and the standardised approach, which is the most likely approach for many banks, places a 150 per cent risk weight on non-performing loans. Basel II will increase the level of capital that is required for banking institutions in the emerging markets, mainly owing to the new operational risk charge, which will be higher if the basic indicator approach is used.

By application of differential risk weights on the basis of sovereign rating as a benchmark, the capital inflows in emerging markets could be seriously affected as most of the borrowers in such markets will be categorised under the speculative grade.
Smaller banks would find the investments on Basel II compliance too big for their existing budgets.

**7.13 Implications for PSU Banks in India**

The official position of the Reserve Bank of India (RBI), as emphasized in its response to CP3 of BCBS, is as follows, *'In its (Basel II) attempt to strive for more accurate measure of risks in banks, the simplicity of the present Capital Accord is proposed to be replaced, with a highly complex methodology which needs the support of highly sophisticated MIS / data processing capabilities. The complexity and sophistication essential for banks for implementing the new capital accord restricts its universal application in the emerging markets.'* RBI had also suggested that a common definition of *'internationally active banks'* be provided by BCBS. Even the United States of America is not adopting the new accord for all of its banks. But, in the same response, RBI has also affirmed that it is *'fully committed to implement the best international practices'*.

The response from the Indian banking industry is equally positive. *'Indian Banks are not averse to making the investment of the effort to embrace global practices,'* asserted V. Leeladhar,
Chairman, Indian Banks' Association (IBA) and Chairman and Managing Director, Union Bank of India.

P.S. Shenoy, chairman and managing director, Bank of Baroda, had remarked that Basel II compliance will eventually result in banks acquiring a competitive edge, stating 'Banks that move proactively in the broad direction outlined by the Basel Committee will have acquired a definite edge over their competitors when the new accord enters the implementation phase.'

There is the possibility that in international markets access may be easier and costs less for banks adopting a more sophisticated approach for credit risk management.

The cost of IT development being less in India than elsewhere, there is a likelihood of a faster payback for the more advanced method of internal ratings despite the greater level of investment required as the payback in terms of reduced capital utilisation at least on the credit side may be quicker depending of course on each bank's cost of capital.

As more and more banks move towards the advanced approaches, the gap between the strong and weak banks will
increase further, making the weaker banks potential takeover targets. This is the economic logic, with Basel II just accentuating it.

7.14 Migration to Basel III

As per Basel III norms, PSU banks in India need to maintain a minimum capital adequacy ratio of 9% in addition to a capital conservation buffer, which will be in the form of common equity at 2.5% of the risk-weighted assets.

In other words, banks' minimum capital adequacy ratio must be 11.5% as per Basel III norms. PSU banks in India are currently required to have a capital adequacy ratio of at least 9%.

The common equity in tier I capital must be 5.5% of risk-weighted assets and the minimum tier I capital adequacy ratio must be 7% instead of 6%. The new rules will come into effect from January, 2013 and banks will have to implement them by March, 2018.

Basel II was designed because its predecessor i.e. Basel I was considered risk insensitive and too preliminary to cope up with the rapid developments in the financial sector resulting in substantial regulatory arbitrage. The basic purpose of Basel II was to leverage on the risk management systems of internationally active banks and
use that for enhanced risk management architecture and, in the process, have better measurement of capital requirements. It is ironical that when the crisis took place, Basel II was either not implemented or just implemented in the jurisdictions. And yet banks had to leapfrog and go in for enhancements under Basel II and Basel III. Under Basel III, an assessment of Indian banks in terms of capital requirements has revealed that, notwithstanding some issues with a few individual banks, the system, as a whole, is very well capitalized and the transition to the revised capital norms of overall capital adequacy, Tier I component or equity component would be smooth. The stress point, however, would be that banks will be required to adjust the unamortized portion of Pension and Gratuity liabilities in the opening balance sheet on April 1, 2013 on transition to IFRS.

Going forward, the capital requirement on account of increased coverage of risks would not be so material for Indian banks as either those activities are not allowed (i.e. re-securitisation) or their magnitude is quite small (i.e. trading book). However, capital requirements, including equity, would be substantial for supporting the high GDP growth and the fact that Credit to GDP ratio, which is currently quite modest at about 55 per cent, is bound to increase substantially on account of structural changes in the economy i.e.
Financial Inclusion Program, increase in loan requirements from more credit intensive sectors such as manufacturing, infrastructure, etc.

The large equity needs, though over an extended time frame, would put downward pressure on the banks’ RoE. While the higher capital requirements would bring down risks in the banking sector and eventually investors would recognize the lower risks and be willing to settle for a lower ROE, in the short term, the only answer is raising productivity.

RBI and banks would be estimating the capital requirements under Basel III once the guidelines for implementation of Basel III are finalized. While implementing Basel III, the dilemma is (a) where our capital regulations are more stringent, should we continue with the more stringent norms? and (b) should we adhere to the extended timetable or step up the implementation schedule, given the fact that the banking system would be comfortable at the starting point i.e. at transition?

Other areas that need strengthening include securitization related regulation, market risk management tools and improvement to the
Supervisory Review and Evaluation Process of Pillar II of Basel II as per the Basel III enhancements.