



# **World Association of Debt Management Offices**

## **BASEL 2**

### **Its Implications for Developing Countries**

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## **1. What does it mean for banks & supervisors in EM countries:**

- **Basle 2 is primarily drafted for internationally active banks (ref. USA, but EU)**
- **Yet, like Basle 1, adoption of Basle 2 will & should definitely put pressure to further improve Risk Management at other banks, further develop local capital markets, create effective & independent supervision, within a fair and effective judiciary system.**
- **Basle 2 as benchmark: “strongly strive for”; yet every country has its own realities; this is even the case among BIS countries.**





- **Legislative environment, and banks' & supervisors' quality should all be made ready for "it"; this is a country by country issue with wide divergence among countries.**
- **Certain elements of Basle 2 are extremely important for immediate implementation: data collection, (internal/external) ratings, disclosure standards, operational risk tools.**
- **Investments hereto are significant, but must be made on basis of agreed local agenda to preserve domestic level playing field.**
- **Public banks will come under pressure to more efficiently & effectively manage their capital.**



## **2. What does it mean for internationally operating banks in EM countries:**

- **Regulatory capital does not drive our overall business strategy; this is increasingly driven by economic capital; neither is loan pricing our primary driver for profitability in EM countries.**
- **Internal rating of borrowers must be consistent throughout the group; so some categories will have lower internal rating than domestic banks attribute to them (e.g. sovereigns, banks); project financing may be affected as well.**





- **International market pricing for some EM debtors (sovereigns, banks) may well go up, however we should recognise that many international creditors are not regulated (e.g. bondholders), so market pricing will prevail, hence increased disclosure/transparency for any EM borrower is key.**
- **We should not be subjected by local supervisory authorities to EM country host government requirements materially deviating/lagging behind our advanced status at group level under Basle 2.**



- **Even without Basle 2, domestic EM banks are facing competition from internationally active banks with local representation.**
- **However, international active banks make major major contributions to raising the banking standards in EM countries; also support FDI, international trade & payment flows, access to international capital markets; but thresholds for their involvements will be higher.**





### **3. Steps forward**

- **Develop locally over an extended period to (first) Basle 1+ (= incl. operating risk) and later to Basle 2.**
- **Ensure country specific, financial sector wide approach, ambitious but balanced**
- **Allow internationally active banks to operate on Basle committee accepted approaches under Basle 2**



- **Even more active involvement in Basle processes: seat at the table for intensive learning & supervisory coordination.**
- **Accelerate structural reforms: rule of law, sanctity of contract; more specifically: bankruptcy law, bank law, independent jurisdiction.**
- **Objective is evolutionary process towards ever more improved risk management: it is a constant journey in a dynamic & (among countries) heterogeneous environment.**





## 4. Concluding observations

- International financial stability is not prerogative of BIS-supervisors only anymore; our banking sector is increasingly globally interdependent.
- Despite multiple tier banking system: pre-Basle 1, Basle 1, Basle 1+, Basle 2, “Basle 3”, ambition must be convergence to higher standards.
- Best banks & supervisors get the best deals
- Internationally active banks (like us) are very much interested to assist you in this, by dialogue, advisory, training, etc. we have a strategic interest in your country.