

On track for advanced Basel II approaches

Banks ready to implement new framework by January 2010

By ELAINE ANG
elaine@thestar.com.my

PETALING JAYA: The country's banks are on track to adopt advanced Basel II approaches by January next year and a delay in the implementation is not expected.

John Lee, KPMG head of Asia Pacific financial risk management and head of Malaysia financial services, said many banks were at various degrees of Basel II projects, covering enhancements of risk management governance and framework, and ongoing improvements in risk assessment, measurement and mitigation.

"Basel II is a pivotal milestone to achieve better risk and capital management," he said.

Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz had said Malaysian banks were well positioned for the advanced implementation of Basel II in 2010.

Most banks, which have chosen to comply with the less sophisticated approaches of Basel II Pillar 1, which focuses on minimum capital requirements, are already in compliance with Basel II since January 2008.

However, some of the country's banks such as Malayan Banking Bhd, OCBC Bank (M) Bhd and United Overseas Bank (M) Bhd have chosen to skip the adoption of the standardised approach and move towards the advanced approaches such as the internal rating based (IRB) approach for credit risk, where compliance is by January 2010.

Lee said that besides the Basel II Pillar 1 requirements, all banks were also working towards complying with Basel II Pillar 2 which focused on banks' internal capital management and Pillar 3 on disclosure of risk management and market discipline, where the deadline indicated by Bank Negara was the beginning of 2010 (for banks which have adopted the standardised approach).

"These banks are certainly occupied in preparing and ensuring that various critical milestones are ful-



Datuk Bridget Lai ... 'We are continuously enhancing our risk management capabilities.'



John Lee ... 'Basel II is a pivotal milestone to achieve better risk and capital management.'

filled to meet the impending timeline," he added.

Malayan Banking Bhd project director (Basel II) Ariffin Morad said the group had obtained Bank Negara's conditional approval to adopt the IRB approach in 2010.

"Bank Negara is in the process of reviewing our preparations and we expect final IRB certification before we implement," he said.

According to Ariffin, Maybank has also made preparations for Pillar 2 and Pillar 3, in line with regulatory requirements.

"We have submitted a high-level Internal Capital Adequacy Assessment Process framework to Bank Negara in 2008.

"We will implement IRB disclosure requirements as set out by Bank Negara for Pillar 3," he said.

OCBC Bank (M) Bhd and OCBC Al-Amin Bank Bhd plan to be ready to adopt Basel II IRB for credit risk by the stipulated deadline pending the release of the finalised IRB rules by the central bank.

OCBC Bank country chief risk officer Choo Yee Kwan said: "We are currently on track to comply with Bank Negara's IRB rules by January

2010."
Pillar 2 for credit risk would follow a year after implementation of Pillar 1, he added.

"Although Pillar 3 for the credit risk timeline in the country has yet to be determined, OCBC, at group level, has included Pillar 3 market disclosure in its 2008 annual report," he said.

United Overseas Bank (M) Bhd director and chief executive officer Chan Kok Seong said the bank was also currently preparing the necessary processes to implement the IRB approach for credit risk.

"Where reporting to the local authority is concerned, we still report under the Basel I regime and will need Bank Negara's certification to migrate to the advanced approaches for credit risk.

"We are ready to adopt Basel II from 2010 onwards, subject to Bank Negara's validation," he said.

KPMG's Lee noted that locally incorporated foreign banks, such as OCBC and UOB, had the necessary infrastructure to comply with the advanced approaches of Basel II as their parents, which are international banks, would have already adopted

the approaches in other countries.

"These banks have a slight advantage because of this. However, they will need to work on localising the approaches according to Bank Negara's requirements," he said.

Meanwhile, Alliance Bank Malaysia Bhd, which had adopted the Basel II standardised approach in 2008, is building capabilities towards the more advanced Basel II IRB approach, which enables rating models to be developed to enhance its business decisions.

Group chief executive officer Datuk Bridget Lai said: "We are continuously enhancing our risk management capabilities and making preparations for the more sophisticated Basel II approaches."

Some of the key challenges banks cited in adopting Basel II include the collection of data history for the development of IRB models, availability of skilled resources and sufficient investment in IT infrastructure to implement Basel II.

Nevertheless, Basel II, with its linkages between risk and capital, is expected to enhance the resilience of domestic banks.