IMPLEMENTATION PLANS UNDER THE NEW INTERNATIONAL CAPITAL STANDARDS AS CONTAINED IN THE BASEL COMMITTEE ON BANKING SUPERVISION DOCUMENT INTERNATIONAL CONVERGENCE OF CAPITAL MEASUREMENT AND CAPITAL STANDARDS

(Appendix to Section 125)

A. General approach

UBs/KBs are expected to comply with the standardized approach for credit risk, and the basic indicator or standardized approaches for operational risk by 2007. By 2010, these banks may move to the foundation internal ratings based (IRB) or advanced IRB approaches for credit risk, and advanced measurement approaches for operational risk.

TBs, on the other hand, are classified into two (2). TBs are generally expected to be subject to an enhanced Basel 1-type approach by 2007. However, TBs affiliated with UBs/KBs should use the same approach used by the UBs/KBs.

RBs/Coop banks, meanwhile, are expected to be subject to an enhanced Basel 1-type approach also by 2007.

An enhanced Basel 1-type approach is basically the same as the current framework but with certain elements of Basel 2 already incorporated such as higher risk weight for past due accounts, and expanded disclosures.

B. Time Table

Between 2004 and 2007, certain provisions of Basel 2 will be gradually incorporated into the current risk-based capital adequacy framework. These would include:

(1) Giving lower risk weights for highly-rated corporate exposures;
(2) Giving higher risk weights for past due claims (net of specific provisions);
(3) Adopting the standardized approach for investments in securitization structures (i.e., risk weights would depend on external ratings);
(4) Implementing a standard computation of liquidity risk and interest rate risk in the banking book; and
(5) Issuing broad guidelines on operational risk management.

The rest of the provisions of Basel 2 standardized approach for credit risk, and basic indicator and standardized approaches for operational risk will be implemented by 2007. Under the standardized approach for credit risk, risk weights would mainly depend on the external rating of the counterparty. Under the basic indicator approach for operational risk, capital charge is fifteen percent (15%) of the 3-year average of a bank's gross income. Under the standardized approach for operational risk, on the other hand, banks will compute capital charge separately for each business line. Business line operational risk charge is a fraction (between 12%-18%) of the 3-year average of a business line's gross income. Total operational risk charge is the sum of the operational risk charges for all business lines.

The expanded disclosure requirements prescribed under Basel 2, as may be appropriate, will also be implemented by 2007.

The draft implementation guidelines containing all these provisions will be exposed for comment by the Bangko Sentral in the first quarter of 2005. The final implementation guidelines are expected to be issued by end-December 2005.

By 2010, banks may already be allowed to use the advanced approaches prescribed under Basel 2. For credit risk, banks may use the internal ratings based (IRB) approach, where the credit risk capital charge would depend on banks' internal rating of the counterparty, including estimates of probability of default, loss given default, and other risk parameters. For operational risk, banks may use statistical modeling and other advanced measurement tools in determining the capital charge.

To facilitate a successful implementation of Basel 2, the Bangko Sentral will continue to engage the banking community, particularly through the BAP's Risk Management Committee, in its preparations especially those involving the eventual implementation of the advanced approaches by 2010. The Bangko Sentral likewise strongly encourages banks to assess the likely impact of this shift in risk-based capital framework on their capital adequacy ratio. Banks needing assistance in performing this self-analysis may contact the Office of the Assistant Governor, Supervision and Examination Sector at email address sdc_stat@bsp.gov.ph.

(As amended by Circular Nos. 890 dated 02 November 2015 and 827 dated 28 February 2014)