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"The strengths of Basel II"

Basel II as a global agreement

- Basel II is an unprecedented international initiative in banking regulation and supervision. A recent survey by the Financial Stability Institute revealed that over one hundred countries plan to adopt the Basel II framework (and a similar number of countries adopted its predecessor, Basel I).

- This wide acceptance of Basel II owes much to the fact that the framework is technically sound, and based on extensive research, consultation and dialogue, including with countries outside the Committee's membership. It represents the culmination of five years of hard work, co-operation and goodwill on the part of interested parties.

Basel II and the simplicity of the architecture

- It is true that Basel II can be complex in its detail. But, if you allow me to compare it to a painting, I would say that it can be better perceived and understood if one steps back from the details.

- The architecture itself is simple. Basel II is constructed on three mutually-reinforcing pillars: minimum capital requirements for key banking risks; assessments by banks of their overall capital needs and supervisory review of these assessments; and market disclosures.

- The three pillars provide a kind of "triple protection", by encompassing three complementary approaches that work together towards ensuring the capital adequacy of institutions. Taken individually, the approaches of each pillar have their merits, but they are even more potent when working together within a common framework.

- It is also important to remember that Basel II is not a theoretical invention of the supervisory community, but rather is based on the international best practices of the industry.

Basel II and its built-in flexibility

- With its menu of approaches that vary in sophistication, Basel II is appropriate for all kinds of banks: large and small banks; banks conducting sophisticated operations and "plain vanilla" institutions; banks which are internationally active and those which operate on a local or national basis, etc.

- This means that the Basel II framework is appropriate and relevant for the European context, where we need a regime that can be applied to all credit institutions and investment firms across the countries of the European Economic Area.

- It also means that the framework is relevant for developing countries, where banks and banking systems may not currently need sophisticated approaches, but can benefit from the enhanced risk sensitivity provided by the simpler approaches, within a framework that encourages and provides for development in risk management and supervisory practices.

Basel II and industry support

- The EU industry is behind Basel II. This is not to claim that everyone is 100% happy with every element of the framework (indeed, 100% satisfaction would probably be an impossible goal for an international framework of this nature), but there is very firm support from both large and small institutions.

- Indeed, many banks are already applying elements of Basel II, even before the regime is officially implemented. This may seem strange, or even shocking, but it is important to remember that Basel II is consistent with – indeed it is based on - the state of the art in the industry's own risk management practices.

- In this respect, from the perspective of the industry, it is a good business tool, and an efficient regulation that minimises distortions in the allocation of capital to risks.

Basel II and the promotion of European integration

- Basel II presents an unprecedented opportunity for greater supervisory convergence, which is important for maintaining a level playing field for internationally active and domestically focused institutions alike.

- And the Committee of European Banking Supervisors (CEBS) is well-placed to take advantage of this opportunity, fulfilling its responsibility to promote convergence and co-operation in Europe.

- There are a number of areas where CEBS is working towards convergence in the context of Basel II, and where it has already made good progress:

    - Reporting: CEBS has designed a common framework for banks to report their solvency situation under Basel II to their European supervisors. More efficient reporting requirements should mean reduced costs.

    - Home-host supervision: it is clear that more supervisory co-operation is needed in order to promote efficient and effective implementation of Basel II across borders. The proposed directive includes some requirements in this respect, and CEBS is working to make these operational.

    - Pillar 2: CEBS published an early consultation paper on pillar 2 (supervisory review), in order to provide clarity to the industry, and to promote consistency of approaches. CEBS is currently undertaking further work, to build up a pillar 2 "compendium".

    - Supervisory disclosure: CEBS has designed a framework for supervisors to make public disclosures on the application and impact of Basel II, to be facilitated through CEBS' website. This will provide a powerful tool for convergence, and enhance supervisory transparency.

- In summary, CEBS is seeking to build a common supervisory culture in Europe.