



Implication of Basel 11 For The Development of a Regional Financial Centre

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Outline

- **Nature of the Banking Industry in the Region**
- **Infrastructure needed for Basel 11 Implementation**
- **Potential impact of Basel 11 for the region**
- **The Way Forward**





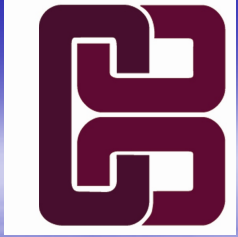
Nature of the Regional Banking Industry

- In the region, primary types of financial institutions:
 - Banks
 - Merchant banks
 - Trust companies
 - Finance houses



Nature of the Regional Banking Industry Cont'd

- Many regional financial institutions are branches or subsidiaries of int'l banks and this calls for the speedy implementation of Basel II
- As regulators, our focus is two-pronged:
 - Determining the risk profile of financial institutions
 - Ensuring institutions are comprehensively managing and mitigating risks



Nature of the Regional Banking Industry Cont'd





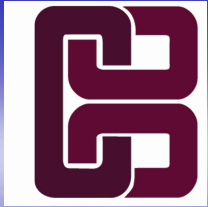
Basic Infrastructure for Implementation of Basel 11

- Before adopting Basle II, certain *pre-conditions* should exist:
 - Compliance with Basel Core Principles (BCP's)
 - Consolidated supervision of financial institutions
 - The adoption of the 1996 Market Risk Amendment
 - Amendments to Legislative & Supervisory frameworks to achieve full compliance with the above.



Basel Core Principles

- Powell (2004) shows that on average developing countries fully compliant with only 7 BCPs.
- Over 40% of developing countries are non-compliant or materially non-compliant with:
 - (a) Connected Lending
 - (b) Country Risk
 - (c) Market Risk
 - (d) Consolidated Supervision



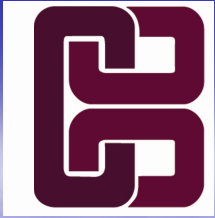
Consolidated Supervision

- Consolidated supervision requires the strengthening of the supervisory frameworks and the upgrading of legislation.
- The latter is necessary to facilitate
 - (a) information sharing
 - (b) cross border supervision
 - (c) the restructuring of groups that are not supervisable.



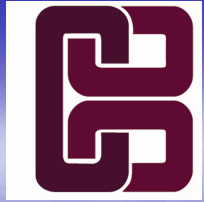
1996 Market Risk Amendment

- Some jurisdictions have implemented the foreign exchange aspect of the 1996 Market risk amendments
- Collaborative work among jurisdictions is on-going



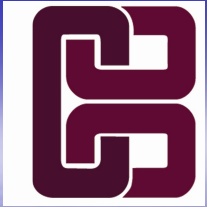
Upgrade of Legislation

- Amendments to legislation in the region are either in progress or recently concluded. (e.g. Trinidad & Tobago, Barbados, Jamaica)
- Development of a harmonized Financial Institutions Act for CARICOM member states



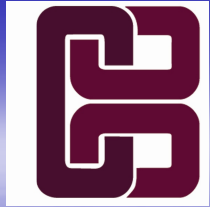
Potential Impact of Basel 11

- Use of the standardized approach to credit risk will be disadvantageous to Caribbean economies
- Most financial institutions/borrowers in the region are not rated by international ratings agencies
- Indigenous banks would be at a competitive disadvantage in attracting high-quality borrowers. These banks would therefore be holding large amounts of credit from unrated corporate borrowers, leading to higher capital requirements.
- Capital markets in the region are shallow.



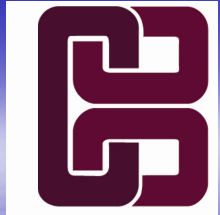
Advantages of the New Framework

- The new Framework is more risk-sensitive
- Increased capital requirements provide greater safeguards for depositors
- Comprehensive framework for addressing credit, market and operational risk.
- Banks will have several options for determining capital requirements
- The new Framework encourages greater market discipline and transparency



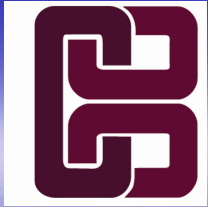
Trinidad & Tobago Experience

- Domestic banks will most likely adopt the standardized approach while the internationally active ones will adopt the IRB approach.
- Implementation is projected to begin around 2009
- Central Bank is advanced in its plans for adopting the 1996 Market Risk Amendment
- Plans to conduct QIS are also in place



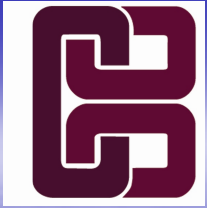
The Way Forward

- Continued regional discussion necessary
- Upgrading of human and technical resources
- Disclosure of key information on a continuous basis



Closing Remarks

- Develop international best practices, supervisory and regulatory standards
- Adhere to high corporate governance standards
- Enhance legislation and regulations
- Facilitate and encourage banks to improve their risk management capabilities



THANK YOU!