

Banking Regulation and Policy Department
Bangladesh Bank
Head Office
Dhaka

BRPD Circular No. 14

Date: December 30, 2007
Poush 16 , 1414

Chief Executives
All Scheduled Banks in Bangladesh

Dear Sir,

Implementation of New Capital Accord (Basel II) in Bangladesh.

You are aware that New Capital Accord (Basel II) will be implemented from early 2009. On the basis of a quantitative impact study (QIS) conducted by Bangladesh Bank to assess the preparedness of banks for implementing Basel II, an **Action-plan / Roadmap** (Annexure - B) has been finalized and approved by the competent authority. The Action-plan/ Roadmap is enclosed herewith for your internal plan and gearing up the efforts for implementing Basel II.

Please acknowledge receipt.

Yours sincerely,

(Naba Gopal Banik)
General Manager
Phone: 7117825

Encl: As above

Action-Plan/ Roadmap

Basel II would be implemented from January 2009. In this regard a quantitative impact study (QIS) to assess the preparedness for implementing Basel II as well as the bank's view on the optional approaches for calculating Minimum Capital Requirement (MCR) as stated in Basel II was carried out in April-May 2007. Study & subsequent discussion with few related banks reveal that bankers should be more acquainted with the New Capital Accord (Basel-II). To address this challenge capacity building of concerned implementing & supervisory officials should be given first priority in the Action Plan/Roadmap. Basel II may be implemented with the following specific approaches as initial steps:

- a) **Standardized Approach** for calculating Risk Weighted Amount (RWA) against **Credit Risk** supported by External Credit Assessment Institutions (ECAIs)
- b) **Standardized Rule Based Approach** against **Market Risk** and
- c) **Basic Indicator Approach** for **Operational Risk**.

Accordingly, Action Plan/ Roadmap for implementing Basel II in Bangladesh may be proposed as stated below:

No.	Steps of Activity/Action	Description	Last date of Completing the task
1.	Capacity Building	<p>Target Group:</p> <ol style="list-style-type: none"> a) Responsible officials of Bangladesh Bank (BB) specially related to Basel II implementation b) Supervisory officials of Bangladesh Bank (Both Off site and On site including Vigilance Division) c) Officials of Commercial Banks related with Basel II implementation, Supervision and Risk Management 	Continuous Effort (It should be started immediately and will continue until implementation is completed)
2.	Requesting National Steering Committee for approval of Action Plan/ Roadmap and Specific Approaches	Combined/ Separate meeting(s) of National Steering Committee and Coordination Committee for deciding on specific approaches to be considered as initial step and action plan/ roadmap of Basel II implementation in Bangladesh.	By December 31, 2007
3.	Issuance of Circular on Action Plan / Roadmap	<p>The action plan/roadmap of implementing Basel II in Bangladesh will be communicated to banks. The communication will include:</p> <ul style="list-style-type: none"> • Steps & timeframe for the adoption of Basel II. • Adoption of various approaches for credit, market and operational risk. <p>This communication will enable banks to devise their internal plans and gear up their efforts.</p>	By January 31 , 2008

No.	Steps of Activity/Action	Description	Last date of Completing the task
4.	Formation and functioning of Basel II Unit	<p>Basel II Implementation Unit at each bank comprising at least 5 members will be as follows:</p> <ul style="list-style-type: none"> a) A senior level officer preferably the MD/DMD/CEO- Chairman b) Head of Internal Control and Compliance - Member c) Head of Treasury - Member d) Head of IT - Member e) Head of Credit risk – Member f) Head of Finance/CFO-Member <p>TOR of the Committee:</p> <ul style="list-style-type: none"> a) Apply the action plan of Basel II in their banks and review there-of. b) Communicate issues related to Basel II implementation to their Management. c) Help to carry out QIS (if necessary). d) Capacity Building program and training according to Training Need Assessment (TNA) for the concerned officials e) Establish planning & supervisory review as required by pillar-II of Basel II framework. 	The Unit has already been formed at each bank
5.	Fixing rules for recognition of External Credit Assessment Institutions (ECAIs)	Developing Guidelines for recognition of External Credit Assessment Institutions (ECAIs) .	By March 31, 2008
6.	Consultation with stakeholders & issuing circular on ECAIs recognition and mapping of ratings with the appropriate risk weights.	Final approval of ECAI Guidelines.	By May 31, 2008
7.	Preparation of draft guidelines for Basel II implementation .	Preparation of draft guidelines with reporting format and Publishing/ circulating the same for appraisal of stakeholders.	By August 31, 2008
8.	Second Quantitative Impact Study (QIS) on progress	Assessment on risk management & requirement of additional capital to be maintained by banks covering market & operational risk along with credit risk (unrated position) under Basel II. Required assessment would be supported by a draft guideline.	By September 30, 2008

No.	Steps of Activity/Action	Description	Last date of Completing the task
9.	Issuance of circular on regulation for compliance of Basel II along with final guidelines & reporting format	Issuing detailed instructions to banks for implementation of Basel II and reporting the same to BB regularly.	By December 31, 2008.
10	Parallel run of present regulation (Basel I) on Capital Adequacy & Basel II Accord	Banks to continue calculation of Minimum Capital Requirement (MCR) as per existing regulation and simultaneous calculation of MCR under Basel II	January 01, 2009. to December 31, 2009
11	Developing database for switching up to Internal Rating Based Approach (IRBA)	For calculating Minimum Capital Requirement (MCR) under Foundation IRB approach, banks will derive figure for determining Probability of Default (PD) on the basis of own database and seek figure on Loss Given to Default (LGD), Exposure at Default (EAD) & Maturity (M) of Credit Exposure from Bangladesh Bank. Thus, BB will develop & maintain required loss database to meet the requirements and banks will be prepared in this regard.	By 2012
		Under Advanced IRB approach, banks will derive all those components (LGD, EAD & M) along with PD on the basis of their own loss database. So, Banks will be prepared in this regard.	Continuous Effort
12.	Migration to Internal Rating Based (IRB) approach (BB's prior approval needed)	Foundation IRBA both at Bangladesh Bank and other banks level	By 2012
		Parallel run along with Standardized Approach	
13	Oversee & subsequent QIS (if necessary): Measures to be taken by Basel II Implementation Cell and Supervision Departments of BB	Review and monitoring of the proceedings and compliances and taking necessary action(s) thereof.	Continuous Effort (Should be started from January 01, 2009)

(A flow statement of the Action Plan/ Roadmap follows next page)

Action plan/ Roadmap on Basel II implementation in Bangladesh

Annexure - B

Year	2007					2008										2009														
Particulars/Months	Ag	S	O	N	D	J	F	Mr	A	M	Jn	Jl	Ag	S	O	N	D	J	F	Mr	A	M	Jn	Jl	Ag	S	O	N	D	
1. Capacity Building	Continuous Effort (Should be started immediately & will continue until Basel II is implemented completely)																													
2. Requesting Steering Committee for approval of Action plan/Roadmap & Specific Approaches																														
3. Issuance of Circular on Action Plan/ Roadmap																														
4. Formation & Function of Basel II Implementation Unit	Has already been formed at each bank & function like capital planning, review, reporting etc. are continuous process																													
5. Fixing rules for recognition of External Credit Assessment Institutions (ECAIs)																														
6. Consultation with stakeholders & issuing circular on ECAIs recognition and mapping of ratings with the appropriate Risk Weights																														
7. Preparation of draft guidelines for Basel II implementation																														
8. 2 nd Quantitative Impact Study (QIS) on Progress																														
9. Issuance of circular on regulation for compliance of Basel –II along with final guideline & reporting format.																														
10. Parallel run of present regulation (Basel-1) on capital adequacy & Basel-II Accord																														
11. Developing Database for switching up to Internal Rating Based (IRB) Approach	Developing Database for supporting of Foundation IRBA by BB by 2012																													
	Developing Database for Advanced IRBA by banks themselves are continuous effort.																													
12. Migration to Internal Rating Based (IRB) Approach	By 2012 (Before migrating to either Foundation or Advanced IRBA require prior approval of BB)																													
13. Oversee by BB and subsequent QIS	(If necessary) Continuous process																													
ECAIs= External Credit Assessment Institutions, IRBA = Internal Rating Based Approach, BB = Bangladesh Bank, QIS = Quantitative Impact Study, J = January, F = February Mr = March, A = April, M = May, Ag = August, S = September, O = October, N = November, D = December.																														