

Banking Regulation and Policy Department
Bangladesh Bank
Head Office
Dhaka

BRPD Circular No. 09

December 31, 2008
Date:-----
Poush 17, 1415

Chief Executives
All Scheduled Banks in Bangladesh

Dear Sir,

**Guidelines on 'Risk Based Capital Adequacy for Banks'
(Revised regulatory capital framework in line with Basel II)**

To comply with international best practices and to make the bank's capital more risk-sensitive as well as to build the banking industry more shock absorbent and stable, all the scheduled banks will start implementing revised regulatory capital framework "**Risk Based Capital Adequacy for Banks**" from January 2009. With a view to above, a National Steering Committee and a Coordination Committee on Basel II Implementation have been working since July 2005.

To assess the supervisory effectiveness and operational independence of BB, a self-audit on compliance with Basel Core Principles (BCP) for effective banking supervision was made in October 2006. This shows favourable position for Basel II implementation in Bangladesh. A study carried out on banks which suggested initial implementation of Basel II with the following specific approaches:

- A) Standardized Approach for calculating Risk Weighted Assets (RWA) against Credit Risk;
- B) Standardized (Rule Based) Approach for calculating RWA against Market Risk ; and
- C) Basic Indicator Approach for calculating RWA against Operational Risk.

Under the Standardized Approach of the Risk Based Capital Adequacy Framework (Basel II), credit rating is to be determined on the basis of risk profile assessed by the External Credit Assessment Institutions (ECAIs) duly recognized by BB.

All scheduled banks will be required to nominate recognized ECAIs for their own as well as their counterparty credit rating.

In this perspective, the revised regulatory capital framework "Risk Based Capital Adequacy for Banks" has been devised and a soft copy (CD Rom) is attached for perusal.

Along with the existing capital adequacy rules & reporting to BB (Ref. BRPD Circular no. 10, dated 25-11-2002) banks will start quarterly reporting as per the set of reporting formats enclosed in the Guideline. For the purpose of statutory compliance during the period of parallel run i.e. 2009, the computation of capital adequacy requirement under existing rules will prevail. Regular reporting in line with the Guideline should reach the Department of Offsite Supervision (DOS) by the end of the month following the end of each quarter.

This Circular along with the Guidelines is also available on the BB website.

Please acknowledge receipt.

Yours sincerely,



(Abu Hena Mohd. Razee Hassan)
General Manager
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Encl: As above (CD Rom)