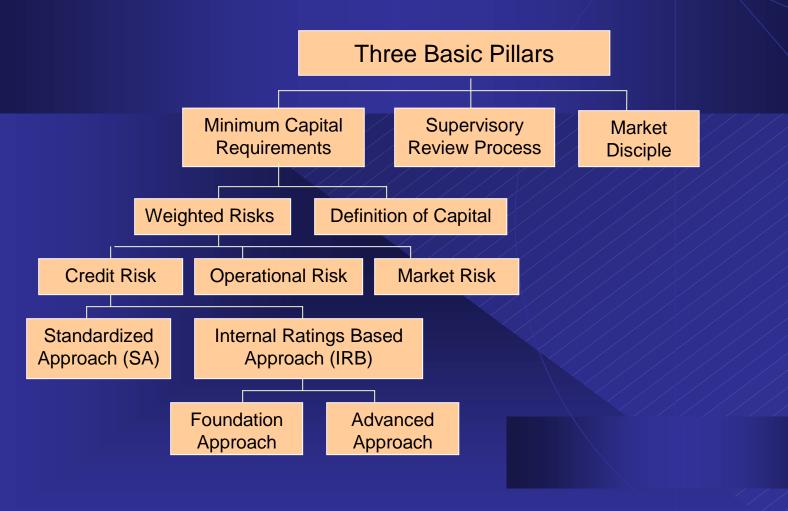
New Capital Accord Basel II Challenges for the Asia-Pacific Region

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The New Accord



New Capital Accord Basel II

Three approaches on credit risk

- SA relies on external credit assessments
- IRB Internal risk management systems
 - Lack of historical data on losses
 - Absence of benchmark risk weight assessments
 - IT system
 - Investment in human resources
 - Training
- How many banks in Asia are ready yet?

- Few external credit rating agencies in developing countries
- The number of rated firms in G-10 countries is 24 times greater than in low-income countries
- International credit rating agencies have to play a greater role

- Investors overreact to the rapidly revised credit information
- Mass withdrawal of capital
- Little information on Asian corporations
 - Poor corporate governance
 - Lack of transparency
 - High cost
- Creditability of national credit rating agencies

- Reduction in the flow of capital to developing countries that tend to be lower-rated
- Indonesia, sovereign rating for foreign currency loans below B- faces a loan risk weight of 150%
- Singapore are assigned a 0% sovereign risk weight and a low 20% corporate and inter-bank loan risk weight.

- Greater transparency and disclosure on the criteria used in assigning ratings
- Consistent with best practice

Challenges for banking sector in the region

- Loans secured by non-residential land assets, 100% capital change
- Common practice in many Asian banks
- Further inflate capital requirements and may be detrimental to economic growth.
- Lending to SMEs

Challenges for regulators

- More emphasis on the supervisory review process
 - Human resources
 - Training
 - Funding
- Cross border coordination

Remarks

- ◆ In wake of Enron, WorldCom & co.
 - Will this really work?
- Regulatory arbitrage
- Could we keep it simple
- Allow for more room
 - Capital adequacy ratio when economy needs to slow down
 - Capital adequacy ratio \(\psi \) when economy needs to expanse
- Design a new risk assessment system for S&M banks

Thank you