

Enhancements to the Basel II framework

July 2009

The proposals for enhancing the Basel II framework have been finalised. The Committee is strengthening the treatment for certain securitisations in Pillar 1 (minimum capital requirements). It is introducing higher risk weights for resecuritisation exposures to better reflect the risk inherent in these products and is also requiring that banks conduct more rigorous credit analyses of externally rated securitisation exposures.

The supplemental Pillar 2 (supervisory review process) guidance addresses several notable weaknesses that have been revealed in banks' risk management processes during the financial turmoil that began in 2007. The areas addressed include:

- firm-wide governance and risk management;
- capturing the risk of off-balance sheet exposures and securitisation activities;
- managing risk concentrations;
- providing incentives for banks to better manage risk and returns over the long term; and
- sound compensation practices.

The Pillar 3 (market discipline) requirements have been strengthened in several key areas, including:

- securitisation exposures in the trading book;
- sponsorship of off-balance sheet vehicles;
- resecuritisation exposures; and
- pipeline and warehousing risks with regard to securitisation exposures

Banks and supervisors are expected to begin implementing the Pillar 2 guidance immediately. The new Pillar 1 capital requirements and Pillar 3 disclosures should be implemented no later than 31 December 2010.

Full document: <http://www.bis.org/publ/bcbs157.htm>