



Bangko Sentral ng Pilipinas

OFFICE OF THE DEPUTY GOVERNOR SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM NO. M-2006-022

To : ALL UNIVERSAL AND COMMERCIAL BANKS

Subject : Basel II Implementation Plans

The Monetary Board, in its Resolution No. 1516 dated 14 October 2004, approved the BSP's implementation plans for the new international capital standards as contained in the Basel Committee on Banking Supervision (BCBS) document *International Convergence of Capital Measurement and Capital Standards: A Revised Framework*¹, or popularly known as Basel 2, which was issued last 26 June 2004:

In this connection, banks are enjoined to submit their group-wide (including subsidiary banks and quasi-banks) Basel II implementation plans from 2007-2010. At a minimum, such plans should include discussions on the following:

1. The approach that shall be used to measure credit, market and operational risk (i.e., Standardized or Internal Ratings-Based for credit risk, Standardized or Internal Models for market risk, and Basic Indicator, Standardized or Advanced Measurement Approach, for operational risk). The projected timetable of implementation should also be stated and should be mapped to the proposed approach to be used.
2. For banks that will use the Standardized Approaches for credit, market and operational risks:
 - What hindrances and limitations are seen in terms of risk assessment and capital computations?
 - Will the risk measures given by the standardized approach be used in the bank's day to day internal risk management? If yes, how? If no, does the bank have other internal measures of risks? Please discuss in detail.
 - Will there be any refinements or changes to the standardized approach that you would recommend in order to make risk assessment more suitable for the bank?

¹ Copy of the full document may be obtained from the Bank for International Settlements (BIS) website at www.bis.org

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- For banks that will use the Standardized Approach for Operational Risk, how will the bank map its income accounts to the various business lines set out in Circular No. 538?
3. For banks that will use the Internal Ratings-Based Approach (IRBA) for credit risk:
- Why opt for the more advanced approach? What preparations are being done to satisfy the requirements under the Basel 2 framework?
 - Will the bank aim for the Foundation IRBA or the Advanced IRBA?
 - Does the bank already have an internal credit risk rating system? If there is, what part of the bank's portfolio is covered by the system?
 - Are there any plans to expand or enhance the coverage of the system? What kind of rating model is being used?
 - How will the bank handle data and data management issues?
 - Are loss data already available within the bank's database?
 - Did the bank subject itself for self assessment subject to the minimum requirements set out on the Basel II document? Please provide detailed discussion on the said assessment.
4. For banks that will use Internal Models for Market Risk
- Why opt for the more advanced approach?
 - For banks that will use Value-at-Risk (VaR) models, did the bank already conduct self assessment in compliance with the requirements for the use of such model as prescribed under the Memorandum to all Universal and Commercial Banks dated 26 January 2004? Please provide discussion on the said assessment.
 - Are the current systems and controls of the bank sufficient to handle valuation and pricing issues?
 - How will the bank handle modeling and data issues?
 - Was the bank able to do its back testing exercise with the initial VaR results? Please provide information on the back testing results.
5. For banks that will use the Advanced Measurement Approach for Operational Risk
- Why opt for the more advanced approach?
 - How will the bank handle data and data management issues?
 - What operational risk measurement approach is the bank planning to use? Please discuss the bank's preparation and readiness on using such approach.
 - How will the bank conduct its pre-assessment exercise so as to determine the applicability of the model used? Will there be a stress testing exercise?

6. With the demands of Basel II in terms of risk measurement and assessments especially with the advanced approaches, how will the bank address its resource needs in terms of technology, personnel, training, etc. Please discuss the bank's strategic plan from now until 2010.

Banks should submit their Basel II Implementation Plans for 2007 -2010 containing discussions on the abovementioned issues to the Office of Supervisory Policy Development no later than 31 December 2006.

For strict compliance.


NESTOR A. ESPENILLA JR.
Deputy Governor

29 November 2006