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# Basel II

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## Overview

This is a comprehensive course that covers the requirements for Basel II as per the revised framework 'International Convergence of Capital Measurement and Capital Standards'. It covers in detail the primary components, or pillars, i.e., minimum capital requirements, supervisory review process and market discipline.

## Learning Outcome Statements

- Understand the requirements of Basel II and its background
- Specify the data requirements for the key calculations involved in various approaches
- Perform the basic calculations for both the Standardized and IRB approaches
- Understand the advanced approaches for credit risk as well as operational risk
- Identify the specific issues to be addressed under supervisory review process (Pillar II)
- Understand the general considerations with regard to disclosure requirements (Pillar III)

## Key Contents

- Basel II - An Overview
  - The objectives of the "International convergence of capital measurement and capital standards". (Also known as Basel II)
  - The substance of minimum capital requirements (Pillar I)
  - The role of supervision as an essential complement to minimum capital requirement
  - The broad qualitative and quantitative disclosures which banks have to disclose under new Basel Capital accord
- Scope of Application
- Credit Risk - Standardized Approach
  - Risk components and risk weights for corporate, bank, equity and sovereign exposures
  - Approaches used to estimate the risk components
  - Minimum requirements for corporate, bank, equity and sovereign exposures
- Standardized Approach - Credit Risk Mitigation
  - Techniques that banks use to mitigate credit risk
  - Treatment of risk mitigation techniques in standardised approach

- Simplified Standardized Approach
  - Simplified Standardised approach for credit risk
  - Treatment of credit risk mitigation techniques
  - Treatment securitization transactions
  - Simplified Standardised approach for operational risk
  
- IRB Approach - Overview
  - The mechanism of IRB approach
  - Different categories of exposures
  - Risk components involved
  - Sub-approaches in IRB approach
  - The procedure for adopting IRB approach across asset classes
  - Transition arrangements under the IRB approach
  
- IRB Approach - Rules for Exposures
  - Risk weight for corporate exposure
  - Risk weight for Specialized Lending portfolio
  - Risk weight for IRB Sovereign portfolio
  - Risk weight for IRB Bank exposures Portfolio
  - Risk weight for qualifying revolving retail exposures portfolio
  - Risk weight for Other Retail exposures Portfolio
  - Risk weights for equity exposures
  - Risk weights for Purchased receivables
  
- IRB Approach - Minimum Requirements
  - Minimum requirements under each exposures to be eligible for the IRB approach
  
- Credit Risk - Securitization Framework
  - IRB approach for securitization exposures
  - Credit Risk Securitization framework
  
- Operation Risk Measurement Approaches
  - Principles for management and supervision of operational risk
  - Framework for evaluating operational risk management policies and practices
  - Role of supervisors and the utility of disclosure
  - Qualifying criteria for operational risk measurement approaches
  
- Qualifying Criteria For Operational Risk
  - Qualifying criteria for operational risk measurement approaches
  
- Market Risk - Measurement Framework
  - Methods to measure market risk capital
  - Capital Ratio
  
- Market Risk - Standardized Measurement Approach
  - Treatment of Interest rate risk
  - Treatment of equity position risk
  - Treatment of Foreign Exchange Risk
  - Treatment of Commodity Risk
  - Treatment of options

- Market Risk - Internal Models Approach
  - 'General' and 'Qualitative' requirements banks need to fulfill to be eligible to use the internal models approach
  - Quantitative standards that banks have to keep in mind for calculating their capital charge
  - Specification of market risk factor
  - Back Testing
  - Stress Testing
  
- Key Principles of Supervisory Review Process
  - Key principles of Supervisory review process
  
- Supervisory Review Process for Securitization
  - Significance Of Risk Transfer
  - Market innovations
  - Provision Of Implicit Support and the supervisory action
  - Residual risks
  - Early amortization
  - Call Provisions
  
- Market Discipline
  - General considerations with regard to disclosure requirements
  - Scope and applications
  - Disclosure requirements for various risk exposures
  
- Ratings for IRB Systems
  - Supervisory guidance on ratings of IRB systems for corporate credit risk
  
- Quantification of IRB Systems – PD, LGD, EAD, Maturity