Introduction

Credit ratings and the proposed new BIS guidelines on capital adequacy for bank credit assets

In June 1999, the Bank for International Settlements (BIS) Committee on Banking Supervision issued its consultative paper on “A New Capital Adequacy Framework.” This report was based on the collaborative work of representatives from twelve of the world’s central banks and seeks to replace the outdated “Basel Accord of 1988,” which has been the guideline for capital reserves that banks allocate against possible losses from loans to sovereign governments, other banks and corporations. The report asked for commentary from all interested parties by 31 March 2000 and plans to set forth revised proposals later in the year 2000. Another commentary period would follow and a final version of the proposals will be forthcoming at the end of 2000 or early 2001. These guidelines could have an enormous impact on the safety, performance and competitive environment of both bank and non-bank financial institutions on a global basis.

Although the BIS framework stresses the importance of supervisory review and market discipline, the main pillar of its recommendations is the revision of minimum regulatory capital requirements. The cornerstone of these requirements is the reliance on external credit ratings, and possibly internal rating systems, to determine new risk weights of different quality asset exposures to various types of customers and investment assets. The result attempts to reduce risk weights (and hence capital allocations) for high quality assets and to introduce a higher than 100% risk weight for low quality exposures. Finally, a new weighting scheme is proposed for asset securitizations and certain types of short-term commitments. The potential efficacy of portfolio credit risk models and their use for capital allocations is recognized as a possible guideline in the future, but is thought to be premature at this time for their formal recognition and acceptance.

The NYU Salomon Center and the Centre for Financial Studies at the Goethe Universität Frankfurt (Main) hosted a symposium on 25 February
2000 to discuss and provide commentary on the critically important Capital Adequacy Framework proposed by the BIS. The object was to bring together leading academics and distinguished regulators and practitioners to consider the appropriateness and to critically comment on the proposed guidelines.

The papers published in this special issue were most, but not all, of those presented at the symposium. The audience also heard presentations by leading regulators from the BIS (Daniele Nouy), the Financial Services Authority of London (Stephen Bland), the Board of Governors of the Federal Reserve System (David Jones) and the Federal Reserve Bank of New York (Christine Cumming and Darryll Hendricks). Their remarks are not reproduced in this volume.

Since many of the leading members of the BIS Commission on Banking Supervision were on panels and were in attendance, we expect that these papers will be carefully scrutinized in the revision process.

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