

The Basel II Framework describes a more comprehensive measure and minimum standard for capital adequacy that national supervisory authorities are now working to implement through domestic rule-making and adoption procedures. It seeks to improve on existing rules by aligning regulatory capital requirements more closely with the underlying risks that banks face. In addition, the Basel II Framework is intended to promote a more forward-looking approach to capital supervision, one that encourages banks to identify the risks they may face, today and in the future, and to develop or improve their ability manage risks.

The presentation focuses especially on the second pillar of the Basel II Framework, the supervisory review process, and its implementation in Germany. The second pillar, which is an integral part of the new capital accord and ranks equally alongside the minimum capital requirements and the call for market transparency, specifically emphasises the need for a qualitative approach to supervising banks. In the international context it is crucial to achieve greater harmonisation not only of major rules, such as the capital requirements on banks, but also of prudential practices to ensure a level playing field for banks in different countries.

The supervisory review process represents a great challenge for banking supervisors in Germany. The design and the most relevant aspects of the risk-oriented supervisory approach in Germany pursuant to Basel II are presented. Challenges of the implementation process and first experiences with the new framework are discussed.