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December 10, 2013

BSD/DIR/CIR/GEN/LAB/06/053

CIRCULAR TO ALL BANKS AND DISCOUNT HOUSES ON THE IMPLEMENTATION OF BASEL II/III IN NIGERIA

Pursuant to Section 13 of the Banks and Other Financial Institutions Act, 1991 as amended, the Central Bank of Nigeria, hereby issues these guidance notes on **Regulatory Capital Measurement and Management for the Nigerian Banking System** (for the implementation of Basel II/III in Nigeria).

They specify approaches for quantifying the risk weighted assets for credit risk, market risk and operational risk for the purpose of determining regulatory capital. The computations are consistent with the requirements of Pillar I of Basel II Accord (International Convergence of Capital Measurement and Capital Standards).

Although the guidelines comply significantly with the requirements of the Basel II/III accords, certain sections were adjusted to reflect the peculiarities of our environment. From time to time, the CBN will issue capital implementation notes to clarify its expectations on compliance with the technical provisions of the regulation.

Accordingly, all banks and banking groups are expected to adopt the basic approaches for the computation of capital requirements for credit risk, market risk and operational risk as follows:

- Credit Risk – the Standardized Approach is to be adopted, however, all forms of corporate claims will be treated as unrated.

- Market Risk - the Standardized Approach is to be adopted.

- Operational Risk - the Basic Indicator Approach (BIA) is to be adopted.

Within the first two years of the adoption of these approaches under Pillar 1; it is hoped that an effective rating system would have developed in Nigeria. Banks and banking groups are projected to have gathered more reliable data and gained more experience that would prepare them to consider the adoption of more sophisticated approaches. The adoption of the Standardized Approach for Operational Risk and other sophisticated approaches will however be subject to the approval of the CBN.

The guidance notes are applicable to all banks and banking groups licensed to operate in Nigeria and should be applied on a solo as well as a consolidated basis. The minimum capital requirement is retained at 10 per cent and 15 per cent respectively for local and internationally active banks.

The timeframe for the implementation of Basel II will be as follows:

- Banks are expected to commence a parallel run of both Basel I and II minimum capital adequacy computation based on the requirements of these guidelines with effect from January, 2014

- The minimum capital adequacy computation under Basel II rules will commence in June 2014

In line with Basel II Pillar 2, banks are reminded of the importance of comprehensive risk management policies and processes that effectively identify, measure, monitor and control their risk exposures in addition to having appropriate board and senior management oversight.

Henceforth, banks are required to carry out their Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis, as at December 31, and forward copies of the report to the CBN for review not later than four (4) months after the year end. For the avoidance of doubt, the deadline for submission of the ICAAP for 2013 financial year is April 30, 2014.

Furthermore, banks are required to comply with the Basel II Pillar 3 disclosure requirements on a bi- annual basis.

The guidance notes will remain in force during the period of the parallel run until full adoption of Basel II in June, 2014 and release of additional notes on other approaches for determining regulatory capital and Basel III rules.

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