

**KEYNOTE ADDRESS BY CHIEF (DR.) J.O. SANUSI,
GOVERNOR, CENTRAL BANK OF NIGERIA AT THE
OPENING CEREMONY OF THE CBN/NDIC WORKSHOP
ON THE NEW CAPITAL ACCORD HELD AT THE LAGOS
SHERATON HOTEL AND TOWERS ON AUGUST 19, 2002**

Deputy Governors, Central Bank of Nigeria,
The Managing Director, NDIC,
Managing Directors/Chief Executive Officers,
Executive Staff of CBN, NDIC and Commercial Banks,
Distinguished Resource Persons,
Workshop Participants,
Ladies and Gentlemen.

It gives me great pleasure to be invited to deliver the keynote address at this workshop, which is intended to provide an opportunity for the banking industry to gain an insight into the various aspects of the New Capital Accord. The new framework for capital adequacy measurement represents the initiative of the Basle Committee to address the criticisms leveled against the 1988 Accord, as well as respond to the needs created by increased sophistication in banking, driven by developments in information and communications technology. Moreover, in the aftermath of the East Asian crisis, other prudential issues, including those of special interest to developing countries came into sharper focus for the Committee.

2. You will recall that the 1988 Basle Accord was designed not only to strengthen the international banking system, but also to promote the convergence of national capital standards in order to provide a level playing field for banks to compete in a globalised

financial environment. The adoption of the New Accord is, therefore, expected to continue to promote the safety, soundness and stability of the international banking system as well as enhance competitive equality. Nigeria being an integral part of the global system should be involved in evolving the New Framework.

3. Let me note at this point that the New Accord is built on three main pillars, which are mutually reinforcing, and must be implemented as a package for optimum effect.

- (1) minimum capital requirement, based on weights that are closely connected to economic risks and not only credit risks as in the 1988 Accord;
- (2) supervisory review of capital adequacy, in line with specified quantitative principles; and
- (3) market discipline based on the provision of reliable and timely information.

4. Discussion on the nitty-gritty of the essential elements of the New Framework has continued to engage the attention of the international financial community and other stakeholders, whose views and contributions will provide valuable inputs to the Committee's work in finalising the New Capital Accord. The process is expected to continue until the fourth quarter of 2003. It is thereafter hoped that the New Accord will be adopted by all countries by 2006. Meanwhile, the need for market participants to understand how the New Accord will apply to banking institutions has been emphasised by the Committee. It is my expectation therefore that this workshop will provide a good platform for the CBN and NDIC and, indeed, other stakeholders in the banking industry,

to take a critical look at the technical aspects of the New Framework and come up with constructive criticisms and proposals which could still help to improve the final output of the Committee and facilitate the implementation of the New Accord in Nigeria, as in other developing countries.

5. Reflecting, the level of increased sophistication in the banking industry, the New Accord is more extensive and complex than the 1988 Accord. Participants at this workshop will have the opportunity to identify and discuss the essential features of the New Framework, which provides for:

- (4) three main approaches for setting the capital requirements for banks, viz the standardized approach and the two internal ratings (RIB) approaches, under which capital requirements would be set on the basis of the bank=s own quantitative assessment of its credit risk;
- (5) a New Framework for supervisory review of capital adequacy and the related issue of the application of the three principles, which are closely linked to the criteria for the assessment of compliance with the core Principles for Effective Banking Supervision; in this context the supervisory skills needed for the implementation of the New Framework will have to be continuously upgraded, such that supervisors can cope with the rapid changes in banking operations and products;
- (6) the effectiveness of market discipline, which depends on the disclosure of

reliable and timely information that would enable banks= counterparties to make objective assessments of risks.

6. Nigeria has always embraced the ideals of the Basle Committee. The 1988 Accord was adopted in this country as far back as 1990. We should recognise that there are significant benefits to be derived from the adoption of the New Accord and other Basle principles, especially since the New Framework attempts to address the peculiar needs of the developing and transition economies. As we talk about integration in the West African sub-region, it can be emphasised that part of the programmes of the West African Monetary Institute is the harmonization and standardization of regulation in the sub-region. The Basle Committee on Banking Supervision should be seen as a major agent and promoter of such international standards. The principles of the New Accord should, therefore, be embraced if we are not to be excluded from the international financial system. Since our banks are competing in a global market, we cannot continue to operate on rules that fail to meet international standards. Adopting the New Accord and such other principles, will enable us to benchmark our performance standards and objectively appraise our compliance under programmes such as the Financial Sector Assessment Programme by the World Bank and International Monetary Fund. The Central Bank is therefore committed to ensuring full compliance with these standards.

7. Ladies and Gentlemen, I have attempted to set the pace for discussions at this important workshop, recognizing that very capable hands and knowledgeable resource

persons have been assembled here to do justice to the subject. The ultimate goal of this workshop, which goes beyond the three day of this gathering, is the articulation of a framework for the implementation of the revised Capital Adequacy Accord in Nigeria. The workshop is operator-centred, I therefore enjoin you all to participate actively in ensuring that we evolve a strategy that will facilitate the adoption of the New Accord in a timely fashion.

8. I thank you for your attention and hereby declare this workshop open.