

BANKING INSTITUTIONS ACT

CIRCULAR – BIA 2/09

TO: ALL BANKING INSTITUTIONS

DATE: 10 JUNE 2009

BASEL II: PARALLEL - RUN AND OTHER IMPLEMENTATION ISSUES

1. BACKGROUND

This Circular is issued to provide information that is required in order to ease the parallel-run phase and ultimately the implementation of Basel II.

2. INTRODUCTION

The parallel-run phase is intended to give banks and the regulator the confidence that all banking institutions are testing their systems and will be able to use them for capital adequacy calculations by the end of the parallel-run period.

3. OBJECTIVE

The objective of the parallel-run phase is to enable banks to demonstrate the ability of their existing risk measurement systems or the refined ones to generate simultaneously figures for credit, operational and market risk under the proposed statutory return on Capital Adequacy (BIR-400) and the current Risk Weighted Capital Return (BIR-400). This phase is also intended to ensure that all banking institutions resolve any underlying problems (if any) and fine-tune them as appropriate during the parallel-run period.

4. RATIONALE

There are several main, practical reasons for banking institutions to perform the parallel-run:

- a) To ensure that the new or refined systems generate results which conform to a banking institution's own expectations together with that of the Office of the regulator.
- b) To enable banking institutions to test the extent to which their systems and reporting processes are robust over a reasonable period of time and can generate management information that a banking institution can use to identify and manage risk as well as regulatory reporting purposes.
- c) To enable banking institutions to make the necessary adjustments on their systems in order to improve their capital calculations before the "go-live" date of 1st of January 2010.

5. PARALLEL- RUN

Similar to the current statutory returns submissions, the parallel-run will entail electronic submissions via the Banking Supervision Application (BSA) or hard copy submissions of the proposed returns. As a result of the potential effects that the proposed Determination on Capital Adequacy (BID-5) may have on other statutory returns, the Bank intends to divide this parallel-run process in two stages as described below.

5.1 Stage 1: First parallel-run

The first parallel-run submissions will be based on the proposed monthly and quarterly statutory returns as at 30 June 2009, and should be submitted by not later than Friday, 24 July 2009. The expected statutory returns to be submitted are as follows:

Return number	identity	Title/description	Reporting dates
BIR-400		Risk Weighted Capital Adequacy Return	30 June 2009
BIR-510		Single Borrower and Concentration Risk Return	30 June 2009
BIR-600		Liquidity Risk Return	30 June 2009
BIR-630		Interest Rate Risk in the Banking Book Return	30 June 2009

5.2 Stage 2: Second parallel-run

The second parallel-run submission will similarly be based on monthly and quarterly return submissions. This submission will cover statutory returns as at 30 September 2009 and should be submitted not later than Monday, 26 October 2009. The expected statutory returns to be submitted are as below:

Return number	identity	Title/description	Reporting dates
BIR 100		Balance Sheet	30 Sept 2009
BIR 110		Off-Balance Sheet	30 Sept 2009
BIR 200		Income Statement	30 Sept 2009
BIR 400		Risk Weighted Capital Adequacy Return	30 Sept 2009
BIR 500		Credit Risk Return	30 Sept 2009
BIR 510		Single Borrower and Concentration Risk Return	30 Sept 2009
BIR 600		Liquidity Risk Return	30 Sept 2009
BIR 630		Interest Rate Risk in the Banking Book Return	30 Sept 2009

6. OVERSIGHT BY INDEPENDENT PARTIES

The Bank encourages oversight and sign-off by the respective banks' internal auditor and/or external auditors to enhance the quality of submitted returns as part of the parallel-run.

7. TOLERANCE CRITERIA

The Bank envisages working on a maximum tolerance error criterion of 15% and a maximum one month permanent problem fixing timeline during the parallel-run. In this regard, all banking institutions should take note that, depending on the quality of submissions received during the parallel-run, the Bank might request certain banking institutions to continue with the parallel-run submissions after the 1st of January 2010 ("go-live" date) to confirm the quality and integrity of the data submissions.

Finally, it is expected that the parallel-run will not affect the submission of the current statutory returns on their respective due dates.

8. OTHER IMPLEMENTATION ISSUES

All banking institutions are required to take note of the due date for submission on the second trail-run for the Internal Capital Assessment Process ("ICAAP"), which is scheduled for 30 September 2009.

ACKNOWLEDGEMENT OF RECEIPT

Two additional copies of this circular are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt should be returned to this Bank as soon as possible, duly completed and signed by both the chief executive officer of the institution and the said auditors.

MICHAEL MAMBO MUKETE
DIRECTOR