A Critical Assessment of Basel II,, Internal Rating Based Approach

Implementation in Emerging Markets The Case of Turkey

Haupt Verlag
Bern • Stuttgart; Wien r

Table of Contents

SECTION I: INTRODUCTION TO THE THESIS AND THE ENVIRONMENTAL ANALYSIS OF BASEL II FROM AN EMERGING MARKET PERSPECTIVE	14
1.1 Introduction	16
1.2 Scope and Objectives of the Thesis	18
1.3 Structure of the Thesis	22
1.4 Methodology and Literature Review	23
CHAPTER 2: THE EMERGENCE OF BASEL II IN TURKEY	28
2.1 Introductioni "	28
2.2 Role of the European Union's Standards	30
2.3 Role of the IMF and World Bank as Supranational A nchors	34
2.4 Initial Progress towards Basel II: Banking Sector Restructuring Program	35
2.5 Basel 11: Impact on the Corporate Banking Practices at Turkish Banks	38
2.6 Basel JJ: Impact on the Financial Stability of Turkey	40
2.7 Closing Remarks	42
SECTION II: ANALYSIS OF THE BASEL IF ACCORD AND THE QUANTJTATIVE IMPACT STUDIES	43
CHAPTER 3: THE PATH TOWARDS BASEL II	45
3.1 Introduction.	46
3.2 Limitations of Basel 1	47
3.3 Empirical Evidence about Bank Supervision, Regulation and Financial Stability•	58
3.4 The New Basel Accord	60
3.5 Closing Remarks on Basel 11 Accord	96

CHAPTER 4: THE QUANTITATIVE IMPACT ANALYSIS OF BASEL II	98
4.1 Introduction9	8
4.2 Objectives of the Basel Committee's Quantitative Impact Studies (QIS)9	8
4.3 Third Quantitative Impact Study (QIS 3))1
4.4 Quantitative Impact Study on Turkish Banks (QIS TR-1))5
4.5 Closing Remarks to the Quantitative Impact Analysis of Basel II11	16
SECTION III: IMPLEMENTATION OF THE BASEL II IRB APPROACH 12	20
CHAPTER 5: IMPLEMENTING THE INTERNAL RATINGS-BASED APPROACH AND ITS ORGANIZATIONAL FOUNDATIONS	
5.1 Introduction	22
5.2 Key Issues in Implementing the IRB	25
5.3 Organizational Backbone of Basel II Compliant Risk Management Framework 13	<i>37</i>
5.4 Group Risk Management (GRM) as the Final Decision Maker	40
5.5 Risk Management Wholesale (RMW)	47
5.6 Loan Products Group (LPG)	50
5.7 Closing Remarks to the Organizational Foundations of IRB Implementation	64
CHAPTER 6: THE IMPLEMENTION OF BASEL II IRB WITH MOODY'SKMV (KEALHOFER, MACQUOWN AND VASICEK) APPROACH	167
6.1 Introduction10	67
6.2 Scope of Work	71
6.3 Phase 1: Bank-specific Gap Analysis	72
6.4 Phase 2: Data Foundation	74
6.5 Phase 3: Risk Analyst as an Internal Rating System Platform1	79

	6.6 Phase 4: Probability of Default (PD) Models	198
	6.7 Phase 5: Single-Obligor Assessment Processes	218
	6.8 Phase 6: Development of an IRB Validation Framework	218
	6.9 F-1RB Implementation Plan & Schedule	222
	6.10 Phase 7: Use of Ex ternal Models for Benchmarking	223
	6.11 Phase 8: Road Map to A-1RB	225
	6.12 Phase 9: Portfolio Analysis & Economic Capital Management	227
	6. 13 Overall Credit Risk Management Work Plan & Schedule	237
	6.14 Closing Remarks to the Implementation of IRB with Moody's KMV	238
SEC	CTION IV: SYNTHESIS AND CONCLUSIONS	241
	CHAPTER 7: THE SYNTHESIS OF THE CHAPTERS AND CONCLUSIONS DRAWN THE THESIS.	
	7.1 Emergence and Importance of Prudential Supervision and Financial S.	
	7.2 Call for More Risk-sensitive Capita! Measurement: Pillar 1	247
	7.3 Emergence and the Importance of the Link to Loss Given Default	249
	7.4 Emergence and the Importance of Validation and Calibration	250
	7.5 Call for Better Supervisory Review Process and Additional Portfolio Considerations: Pillar 2	252
	7.6 Call for Market Discipline and Transparency: Pillar 3	255
	7.7 The New Risk Management Organization: A Source of Competitive Ad	_
	DENIDICEC	250