

Brussels, 24 October 2005

Uniform letter to credit institutions and stockbroking companies

Dear Madam,
Dear Sir,

With its letter of 3 June 2005 (PPB/56), the Banking, Finance and Insurance Commission (BFIC) informed credit institutions and stockbroking companies of the repercussions of the provisions of European Directive 2000/12 (hereinafter referred to as ‘the CRD’) relating to the introduction of the new agreement on capital (hereinafter referred to as ‘Basel II’): more particularly, to the timing and the procedure to be followed for institutions¹ that wish to make use of internal measurement systems for the calculation of the own funds requirement for the credit and/or the operational risk.

The BFIC’s intention with the present letter is – as announced – to go at greater length into the content and composition of the application dossier required to be submitted by institutions wishing to use an internal rating system for the measurement of the credit risk.

Institutions that, in accordance with Article 84 of the CRD, wish to make use of an internal ratings-based approach (IRB) in calculating the own funds requirement for the credit risk are required to submit a formal application to the BFIC on the basis of a complete dossier. The expectations regarding form and content of the dossiers to be submitted apply to all institutions that, in Belgium, are subject to the solvency regulations and that wish to make use of the Foundation Internal Ratings-Based approach (FIRB) or of the Advanced Internal Ratings-Based approach (AIRB) in calculating the own funds requirement for the credit risk, save those institutions of Belgian law that are subsidiaries of institutions of the law of another Member State of the European Union (EU). For those institutions, the requirements for the dossier will be set out by the consolidating supervisory authority, with account taken of Article 129 of the CRD. The provisions in the present letter apply to the subsidiaries and branches established in Belgium of non-EU institutions, the foreign supervisory authority of the home country (the home supervisory authority) of which cannot be considered as equivalent.

However, no official application dossier may be submitted and consequently no official approval can be given on the part of the BFIC as long as the CRD has not been transposed into national regulation. To ensure a smooth application process, institutions may submit a semi-official dossier. Once transposition into national regulation is complete, institutions that have already submitted a semi-official dossier are required to officialize their application by submitting a new letter of formal application (with a reference to the semi-official dossier). Where the BFIC has already adopted positions on the basis of the semi-official dossier and no new information that could effect

¹ For the purposes of this application dossier, by ‘institution’ is meant the top-consolidated enterprise, established in Belgium, that, pursuant to its Articles of Association, is subject to the CRD, including all subsidiaries concerned.

those positions is forthcoming from either the BFIC or the institution, they will be confirmed in the official decision.

The dossier is required to be submitted to the BFIC at least one year prior to the date of implementation. The date of implementation concerned here is the one indicated by the institutions themselves in the dossier.

The time limit of one year applies also to the approval of new models that, in accordance with the roll-out plan, institutions wish to adopt at a later date, where the relevant information for those models has not yet been fully incorporated into the dossier. Indeed, where new models are to be introduced², the relevant sections of the application dossier are required to be resubmitted (at least the sections concerning detailed information per model and the impact study). Mergers and acquisitions may also require a completely or partially amended application dossier to be submitted. As the case may be, the supervisory authorities concerned will include the new situation in the treatment of the dossier, pursuant to Article 129 of the CRD.

The BFIC expects institutions themselves to include the requisite information in the dossier. Additionally, the dossier is required to contain a list of what internal documentation is available regarding implementation of Basel II. A reference in the dossier to the supplementary documentation mentioned on that list is permissible, but may serve only by way of supplementing the answer. In an initial phase, solely the documentation list is submitted, but the BFIC may at all times request the supplementary information. As the case may be, institutions are expected to make this information available without delay. The dossier and the documentation list are required to be submitted to the BFIC in both manuscript and electronic form. The documentation that institutions are required to add by way of annex to the dossier is to be submitted only in electronic form.

With a view to limiting as much as possible the costs to institutions of assembling the dossier, use may be made – where possible – of internal documentation already available. However, any information already submitted to the BFIC in the past is required to be included anew in the dossier, given that this last will be treated as an independent collection of documents.

In order to expedite the international treatment of the application dossier, institutions are required to ensure that the components of the dossier clearly indicate the name of the supervisory authority of the host country (the host supervisory authority) involved. This will permit any information in the dossier that is relevant to such host supervisory authorities to be passed to them.

² This also includes the first introduction of existing models in another legal entity.

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Where there are no foreign host supervisory authorities within the group, the dossier may be drawn up in the customary language of the country. Where there are foreign host supervisory authorities, however, the dossier is required to be drawn up in English, save for the formal letter introducing the information or application dossier, which is required to be drawn up in the customary national language.

A copy of the present letter is being sent to your company's auditor(s) and accredited auditor(s).

Yours faithfully,

Peter Praet,
Member of the Management Committee

Rudi Bonte,
Member of the Management Committee

Annexe: Internal rating-based (IRB) approaches