

A Basel II Training Framework for User Awareness and Roll-out

An Issue for financial firms

Basel II

In 1988 a Capital Accord was proposed by the Bank of International Settlement and accepted by most major financially active nations. This laid down the amount of capital that a financial institution had to retain in order to have some safeguard against adverse market conditions.

This has been updated to incorporate more flexibility, to give well governed institutions more capital benefit for their efforts and to include conditions on sound risk management and disclosure of risk and capital activities.

This update, the New Basel Capital Accord, known as Basel II, is in final draft stages and will be implemented from 2007 onwards. However many national regulators are introducing the risk management and control parts of Basel II at earlier dates.

UK and EU companies

The Financial Services Authority, the UK regulator of financial firms, has been active in the creation of Basel II and is planning to introduce, as part of the roll-out its regulations many of the non-capital aspects of Basel II, on an industry category basis, before 2007

The EU will also incorporate Basel II into its Risk Capital Directive (previously known as CAD 3) in very similar timetables to the Basel II dates.

All are impacted

The EU, and the FSA, will apply Basel II to all financial firms via the above legislations. No exceptions are expected.

Also good corporate governance, risk controls and disclosure of information are key to any quoted or regulated company. Basel II risk compliance is what governments, analysts, counterparties and investors now expect.

The Challenge for Organisations



Basel II requires that each part of an organisation understands its obligations and the activities it needs to carry out for compliance. A **Risk Culture** needs to be created.

- Following initial **Awareness** and understanding of the Accord, the best way forward will have been selected from the options. A **Strategy** will have been created and the processes and systems – the **Implementation** programme – put in place.
- No programme can be considered successful unless it has been accepted and willingly adopted by all relevant users – the whole organisation in this case. This involves both winning the hearts and minds of the users, and the installation of the necessary maintenance and support processes – **Deployment** is key to success:
 - Senior management needs to know their obligations and to be able to understand and manage the risk profile of the organisation,
 - Middle management must be able to assess risks and controls, take formal preventative actions and manage incidents,
 - Supervisors and staff must be able to collect the necessary control and event data,
 - Client-facing staff must be able to explain their organisation's position with regards to risk, controls and Basel II.

Training is too important a component to be left to chance. Only through a successful training program can the necessary **Risk Culture** be achieved.

The DXL Solution

DXL approached the requirements for Basel II by building a portfolio of training courses and components. We accelerate **awareness** through standard off-the shelf courses. To facilitate **strategy** and **implementation** we design bespoke courses for planners and developers building on the content of the standard courses, and provide risk categorisation workshops (see *DXL's Fast Track Risk Framework*).

To **create the culture** we design customised training from standard components for: supervisors involved in risk identification and assessment, users to know the regulations and their obligations in risk incident handling, and customer facing staff who must explain the company's risk policies.

Structure

We work with you on a training needs assessment to confirm the best form of Basel II roll-out, who should be trained, to what level and how the training should be carried out.

Different organisations will implement risk management in different ways. Who will identify and assess risks? Who will record the initial risk events? Who will collect risk event data? How will this be reported up through the organisation?

Format

Each organisation requires an individual approaches - simple instructions on procedures or detailed explanations of the drivers and benefits that result from the risk processes.

Training can be delivered in many formats. Distance learning or face-to-face, classroom, PC or web-based courses, interactive or exam-based: all these possibilities need to be considered.

Content

Pre-reading material, course overviews and case studies must be provided. DXL provides these from their extensive libraries and will develop new material for the organisation's chosen approach to risk.

Testing will demonstrate compliance. Interim and formal accreditation testing topical to the organisation's business will also be developed.

Delivery

DXL trainers can deliver the training or can train local or internal trainers. We are experienced in training overseas and across different nationalities.

Benefits of the DXL Solution

- ✓ Experienced trainers with knowledge of the regulations
- ✓ Pre-prepared courses and components
- ✓ Understanding of the issues in rolling out risk awareness and a risk culture, and
- ✓ **A rapid, focused and cost-effective approach to mobilisation of an enterprise-wide risk management programme.**

An example of a Basel II classroom-based training course

Day 1 – The Accord and its implications

Opening Test

Background to the New Basel Capital Accord (Basel II)

Reasons for Basel II. Structure of the Accord. What is capital? Calculation of Minimum Capital Requirements, Credit Risk, Market Risk and Operational Risk. The Supervisory Review Process and Risk Management. Disclosure and Market Discipline.

Other Drivers

Sarbanes-Oxley, The Risk Capital Directive, International Financial Reporting Standards, Rating Agencies, Corporate Governance and Good Practice

Facilitated Discussion

Sound Practices for Operational Risk

What are risks, controls, events and indicators? What is an operational risk management framework? Measurement of risk and risk attributes. What is a risk culture?

Changes to procedures

Risk identification/assessment - controls identification and assessment – communications – responsibilities – legal.

Facilitated discussion

End of Day 1 Test

Day 2 – Implementing a risk and control framework

Review Day 1 followed by Test

Practical usage of the risks and controls system

Hands-on demonstration of risk and control reporting

Practical risk scenario assessment

What is a scenario? - demonstration of risk scenario assessment - how to review the results.

Facilitated Discussion

Test of risk, control and scenario handling

Situation management

Information retention and security - conflicts - communications

Facilitated Discussion of all issues

Test of all aspects (including accreditation)