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Torbey urges Lebanese and Arab banks to comply with Basel III

New criteria will help region avoid financial crisis, banker claims

By The Daily Star

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BEIRUT: A leading banker urged Lebanese and Arab banks to fully comply with Basel III requirements Friday to avoid any possible financial crisis similar to the one which hit many Western nations.

"We are pinning high hopes on the new international criteria and most notably Basel III requirements to avoid new financial crises on the individual and system levels," Joseph Torbey, the head of the Association of Banks in Lebanon, told participants in a conference on Basel III at the Phoenicia Intercontinental Hotel in Beirut.

He added that the studies and analyses have shown that the weaknesses in the banking and financial activities around the world mainly centered on high risk investments and the complex securitization and re-securitization practices.

"Among the basic issues which the international financial crisis has revealed is that many banks did not have sufficient capitals to back up the risks which they have taken. Later these banks discovered that the magnitude of the crisis was above all their expectations," Torbey said.

He added that many major international banks have built massive debts both inside and outside their balance sheets.

According to the new rules, all banks must hold much more capital to prevent a repeat of the financial crisis, following a deal hammered out Friday. Central bank governors and regulators from around the world agreed to the new Basel III rules after a meeting in Switzerland.

Banks will have to increase their core tier-one capital ratio to 4.5 percent under the plan. In addition, they will have to carry a further "counter-cyclical" capital conservation buffer of 2.5 percent. Any bank that fails to meet the new requirements is expected to be banned from paying dividends to shareholders until it has improved.

But most Lebanese bankers expressed confidence that they will be able to meet the conditions set by Basel III, noting that the capital adequacy ratios of the banks in Lebanon are quite high, even by international standards.

The Central Bank supervises and regulates the banking system. Since 1998, commercial banks have been required to meet a minimum capital adequacy ratio of 12 percent, obligatory reserves corresponding to 10 percent of annual profits, and systematic recourse to the provisioning of non-performing loans in line with the Basel II Agreement.

Banking capital has increased substantially and by the end of 2001, the average capital adequacy ratio of commercial banks came to about 16.18 percent. Banks are required to draw up financial statements and auditors must publish consolidated and audited financial statements annually.

For his part, the head of the Banking Control Commission, Osama Mikdashi, said commercial banks should set certain criteria for risk management in order to avoid financial crisis or mitigate its impact.

“Good management should also embrace the board of directors and efficient organizations in order to protect the depositors and safeguard the money of investors,” Mikdashi stressed. – **The Daily Star**