FLASH NEWS

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# Basel II in Mozambique: The New Rules of Capital Adequacy and Risk Management

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The publication in the Mozambican *Official Gazette* of Notice no. 3/GBM/2012, of 13 December, ("Notice") issued by the Bank of Mozambique ("BM") was recently announced.

The Notice´s purpose is to establish the scope and timing for the introduction of amendments to the country´s prudential legal framework and to the rules of capital adequacy, in order to to ensure their compliance with Basel II, which rests on three pillars:

> Pillar I: minimum capital requirements to cover credit, operational and market risks;

> Pillar II: Supervisory Review Evaluation Process (SREP) and Internal Capital Adequacy Assessment Process (ICAP);

> Pillar III: market discipline.

The Notice is applicable, unless otherwise specified, to all credit institutions subject to the supervision of the BM, admitting, however, that, upon due justified request, and on grounds of size, location or other factors, credit institutions may be exempted from the Notice's scope, while remaining subject to the rules set forth in Notices of BM no. 5/GBM/2007, no. 6/GBM/2007 and no. 8/GBM/2007 of 30 March.

In what refers to the implementation of Basel II during the year of 2013, credit institutions should, from 1 January, proceed to the report of prudential information in accordance with both the current prudential regime and the new Basel II prudential regime. From 1 January 2014, the referred reporting shall be performed exclusively in accordance with the new prudential regime.

The Notice further provides that for the purposes of the implementation of Pillar I, identified above, the BM will issue additional rules, namely autonomous Notices concerning: (i) the implementation of the simplified standard model for the calculation of assets, weighted by risk (credit risk); (ii) the adoption of the Basic Indicator Approach ("BIA"), of The Standardized Approach (TSA) or of both, for the calculation of capital requirements regarding operational risk; and (iii) the computation of capital requirements to cover market risks.

This Notice, effective from the date of its publication, will sophisticate Mozambican banking supervision and constitutes a major challenge for all credit institutions, which shall have to implement the necessary measures in order to assure compliance with these new rules.



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