# BOOK REVIEW

# *Implementation of Basel Accords in Bangladesh: The Role of Institutions*

## By A K M Kamrul Hasan, Yasushi Suzuki, Singapore: Palgrave Macmillan, 2021*

Hamid Waqas**

This reviewed book is written by Dr. Kamrul Hasan, who obtained his Ph.D. in banking and financial institutions. His earlier research revolves around banking regulation, corporate governance, venture capital, and innovation-driven enterprise. His research has been published in numerous internationally indexed journals such as the *Financial Internet Quarterly*, the *International Journal of Economics*, *Management and Accounting*, the *International Journal of SME Development*, and the *BAUET Journal*. He is currently leading a research cluster at Westminster International University in Tashkent, for the purpose of producing high-quality research in the area of commercial banking. The co-author of this book is Professor Yasushi Suzuki from the Ritsumeikan Asia Pacific University in Japan. He is a well-known academician and researcher who has published several high impact books and had his research articles published in internationally indexed research journals.

This book sheds a brief light on the impact of the Basel accords in Bangladesh. More precisely, this book focuses on the credit risk standardization approach of the Basel Accords and enables external credit rating agencies to assess the rate of exposure and the potential risk in extending subordinate debts (second tier debts). This book also provides details of several bank distress cases in real-world scenarios.

Along with others, one of the most significant contributions of this book is the quantification of the credit risk under the Basel Accord. The authors outlined this process in a very easy and understandable way which can be understood by any person who possesses basic knowledge of the commercial banking sector.

In the first chapter of the book, the economic realities of the Bangladeshi banking sector, Basel Accord anomalies, and the research objectives of the study were discussed. This chapter illustrates how institutions can be utilized to explain the current debate surrounding Bangladesh's struggling banking industry.

Two points are raised in the second chapter on the BIS and Basel Accords. The BIS emerged

---

* 223 pages, ISBN: 978-981-16-3471-0 (Hardcover)

** Senior Lecturer at the School of Business and Economics, Westminster International University in Tashkent, Uzbekistan

Email: hwaqas@wiut.uz

Published online: February 7, 2023.

©Asia-Japan Research Institute of Ritsumeikan University:
Asia-Japan Research Academic Bulletin, 2023
ONLINE ISSN 2435-306X, Vol.4, 74

from a collaboration among Western European central banks. Before establishing the Basel framework as a generally accepted prudential banking regulation, the BIS made multiple attempts to restore public confidence in international banking in the wake of the Herstatt failure and the Latin American debt crisis. Basel Accord I was drafted in 1988 for the internationally active banks of the G10 nations (BIS, 2019). In addition, in response to international banking risks and crises, the BIS revised the Basel regulations, assuaging academics' concerns about the negative effects of regulation. The BIS established the Basel Accords as official institutions (regulations) to stabilize the banking industry.

The authors discuss the flaws in the banking business model briefly in the third chapter. After discussing banking roles and business models in light of portfolio theory and monitoring, the authors extended the argument for banking regulation beyond the depositors' representative and systemic risk perspectives. These theories shed light on how banking regulations address systemic risk. They also discussed and analyzed capital regulation. Capital regulations are intended to preserve financial stability by preventing bank robberies and systemic risk.

The perspectives of institutional economists on regulation are examined in the fourth chapter. It is argued that in order to standardize credit risk measurement, the Basel Accord approach recommends using the credit risk rating from ECAI. After performing an institutional analysis of ECAI's rules as the regulatory body for SA, the authors claim that homogenizing credit risk using ECAI credit information prevents the growth of non-performing loans in Bangladesh. The authors concluded that there is no liability regime for ECAI's rating and that the disclosure article is insufficient to ensure reliance on ECAI's credit rating methodology after looking at ECAI's regulations from two different angles. They also talked about sub-debt institutions in Bangladesh and learned that banks had to pay astronomical costs for issuance and that the sub-debt regulations do not cover these problems, an issue which demands immediate institutional reforms.

According to some academics, ECAIs should rely more on their "reputational capital" than on "regulatory incentives" (Brown, 2019). The quality of ECAI's credit information in Bangladesh is lowered by a lackluster internal governance structure, a lack of focus on credit screening abilities, the issuer-pays model, and intense competition, creating a moral hazard and thus deterring bank executives. In Chapter 5, the authors claim that regulatory recognition encourages Bangladeshi CRAs to increase their revenue, rather than their rigorous analytical ratings or the reduction of information asymmetry on the credit market, as the reason for their continued existence. Institutional restructuring is necessary for ECAI in order to raise its rating and increase its financial stability. If ECAI ratings are in line with loan performance, the authors believe that the quality of those ratings will increase.

In Chapter 6, the authors identified a "transitional failure" in Bangladesh's adoption of the Basel Accords, as neither sub-debt nor bank asset quality improved. In the banking sector of Bangladesh, sub-failure debt is known as an "institutional failure." The sub-debt trap commercial banks fall into poses a systemic risk to the financial industry. Basel III's BIS overestimated the impact of subordinated debt on the industry (when sub-debt is considered as Tier 2 capital). To maintain banking system assurance, depositor confidence, financial stability, and systemic risk prevention, depositors, taxpayers, and society all require prudential policies that are rational, long-term, and successful. Effective prudential regulation is essential to prevent bank runs, promote financial resilience, guarantee depositors' funds, and reduce taxpayer burden in order to maximize societal benefit.

The cases of bank distress in Bangladesh are also discussed in chapter seven of the book. Bank failures show that micro-prudential regulation has failed to limit banks' appetite for risk. The Basel Accord required PCBs and SCBs to use the SA and ECAIs grading system for determining

credit risk; however, the quality of bank assets did not increase. The last chapter presents a number of legislative initiatives to improve the nation's failing banking industry and reap the rewards of Basel. It could be essential to modify the Bangladesh Bank Order of 1972 in order to "apply" macroprudential rules and policies, and to establish a distinct "regulatory authority" to manage banking prudential rules and supervisory issues, either inside or outside the central bank (like the PRA at the Bank of England).

Numerous institutional failings led to the realities of the Bangladesh bank industry between 2009 and 2018 that are described in this book. The authors attempted to explain Bangladeshi financial abnormalities using the Basel framework and produced two important results. First, sub-debt did not improve the bank's capital quality or resilience. Second, increasing loan exposure and nonperforming loans are a result of ALCO and banks' credit risk management systems. There are not many publications on the Basal Accord's use in institutions, particularly in developing countries; therefore, this book fills a key vacuum.

**References**

Bank for International Settlements (BIS). 2019. Annual Report 2018/19. *Www.bis.org*. https://www.bis.org/about/areport/areport2019.htm

Brown, S. 2019. The Governance of Credit Rating Agencies Regulatory Regimes and Liability Issues by Andrea Miglionico (eBook). *International and Comparative Law Quarterly*, 68(04), 1055-1056. https://doi.org/10.1017/s0020589319000368

*Faculty Information - SUZUKI Yasushi*. (n.d.). Researcher.apu.ac.jp. Retrieved November 1, 2022, from https://researcher.apu.ac.jp/apuhp/KgApp?resId=S001446&Language=2

Hasan, A. K., and Suzuki, Y. 2021. *Implementation of Basel Accords in Bangladesh*. Springer Singapore.