

# Risk Management: An International Regulatory Framework

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**Abstract.** In order to limit the banks against engagements far too risky which could, for some of them, to bring them to the bankruptcy, the Bank for International Settlements (BIS) proposed in 1988 the criteria on capital adequacy necessary to cover market risks and credit risks. These recommendations constituted the regulation known as Basle I which gave rise to the Cooke ratio. The objective of this paper is to review the bank regulatory framework and to explain how the Basle II framework, proposed in 2003 with Mac Donough ratio, is different from the previous one. We shall emphasize on the method of risk calculation and capital adequacy, the supervisory process, the market discipline and communications. We shall talk about their impacts on the banks, the product pricing, their profitability and on the economic environment. We will conclude by giving a progress report on certain solutions to improve the regulation. An outline on its later evolutions will also be discussed.