



## MIDRANGE DYNAMICS GMBH

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# BASEL II

MIDRANGE DYNAMICS  
CASE STUDY

**Basel II is the project of the Basel Committee on Banking Supervision (BCBS) to revise the international guidelines for the calculation of the required regulatory capital for financial institutions, originally introduced in 1988 as "Basel I". The primary goal of the revision of Basel I is to increase the risk sensitivity. The revision and subsequent consultative process of Basel I started in 1999. The official implementation date of Basel II for financial organizations within the G10 countries is scheduled for December 31, 2006.**

### Structure of Basel II

Basel II consists of three mutually reinforcing pillars, which together should contribute to the safety of the financial system by covering the following risk types:

- Credit risk
- Market risk
- Operational risk

### Operational Risks and the Information Technology (IT)

For IT departments, the management of the Operational Risk is the main issue to consider from Basel II.

**Operational Risk management is defined as "direct or indirect losses resulting from inadequate or failed internal processes, personnel or systems, or by outside events".**

The Basel II accords requires that Operational Risk management include the capital coverage of these risks. However, proof of solid internal governing of the Operational Risks will allow financial institutions to deallocate a part of the fixed capital required by Basel II.

Effective control and change management processes within the IT will be a major factor in minimizing the level of fixed capital to fulfill the Basel II requirements for Operational Risk management.

The implementation of procedures for the IT organization and tools for the traceability and auditability of changes in the IT system will become strategic factors in business management. The costs of such Change Management tools are usually negligible when compared to the amount of fixed capital that can be freed up.

### Basel II and Sarbanes-Oxley (SOX 404)

Basel II requires the introduction of an explicit treatment of Operational Risks that results in a measure of Operational Risk being included in the denominator of the financial institutions capital ratio. Capital requirements for Operational Risk depends on both qualitative and quantitative criteria. The qualitative criteria requires among others the establishment of sufficient internal controls to ensure reliable financial reporting and proving that this is the case. The company must provide relevant evidence on an annual basis.

Section 404 of the Sarbanes-Oxley Act (SOX 404) is one of the most demanding requirements in terms of corporate compliance. The company must provide relevant evidence on an annual basis. Among the act's most important provisions is the SOX 404 requirement that the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of a company personally certify the effectiveness of internal controls.

Basel II the Basel Committee on Banking Supervision (BCBS)



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## How Midrange Dynamics can support you in becoming Basel II compliant

Midrange Dynamics solutions assist a company in setting up a controlled, rigorous organization of their IT systems, while minimizing risks when updating applications either internally or from external parties (such as Olympic from Eri bancaire or lsys Banking Software). What's more, by adopting these solutions, the company frees up fixed capital and IT resources, making it available for other projects.

The solutions from Midrange Dynamics guarantee the security, integrity and traceability required by law (e.g. Basel II, Sarbanes-Oxley, and other regulations by Central Banks) and by auditors. The entire application life cycle is covered:

- Project management
- Analysis management (Referencing of software components, impact analysis)
- Source and Object management (version control)
- Test support
- Installation management
- Distribution management (Multi-environment and multi-machine transfer)
- Audit management

To properly fulfill the requirement of the Sarbanes-Oxley Act (SOX) it is absolutely necessary that companies have a complete audit trail over all its transactions. This includes all transactions and changes made on their IT-systems.

## MDCMS has been certified Sarbanes-Oxley compliant at 2 global banks.

The certification process was performed at the first bank by one of the 5 big auditing companies (like ACCENTURE, KPMG, Deloitte, etc.). At the other bank, the Group Auditing department intensively checked MDCMS from an auditing point-of-view and certified MDCMS).

MDCMS provides many tools to assist IT departments in becoming Sarbanes-Oxley (SOX) compliant and has also been used to support Basel II-projects.

Many companies have chosen MDCMS to handle it's Change and Distribution Management in part due to its completeness of functionality to trace every change on the system.

### Conclusion

The increasing number of regulatory rules and provisions require appropriate organizational adaptations and tool support - the added value of a Change Management solutions is clearly visible.

Just one more good reason to tool up with MDCMS - the complete Change Management System for iSeries.

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