3. Finance: Basel III

Commitment [#51]:
"In particular, we will implement fully the new bank capital and liquidity standards."
Seoul Summit Document

Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina	-1		
Australia			+1
Brazil			+1
Canada			+1
China			+1
France			+1
Germany			+1
India		0	
Indonesia			+1
Italy			+1
Japan			+1
Korea		0	
Mexico		0	
Russia		0	
Saudi Arabia			+1
South Africa			+1
Turkey			+1
United Kingdom			+1
United States		0	
European Union			+1
Average Score		+0.65	

Background:
The Basel III framework on bank capital and liquidity standards is a continuation of Basel I and Basel II initiatives launched by the Basel Committee on Banking Supervision (BCBS). The BCBS proposed the Basel III framework as a response to the 2008 financial crisis, which exposed weaknesses in the capitalization structure of several globally significant banks, particularly in the United States and Europe. The Basel III framework aims to strengthen global capital and liquidity regulation in order to instil prudent practices in capital markets and foster a resilient international financial system (see Table 7).[231]

Basel III reforms work on two tiers: the bank level, which aims to improve the resilience of individual banking institutions during periods of financial stress, and the macroprudential level, which aims to mitigate the procyclical amplification of system-wide risks that build up across the banking sector. Key elements of the new framework require financial institutions to strengthen the capital requirements for counterparty credit risk exposures arising from derivatives, repos, and securities financing activities; increase transparency of the capital; adopt a leverage ratio that will help contain excessive risk-taking in the banking system; adopt countercyclical capital framework

[231] Strengthening the resilience of the banking sector, Basel Committee on Banking Supervision (Basel) December 2009. Date of Access: 23 March 2011. http://www.bis.org/publ/bcbs164.htm

that will allow for build up of capital buffers in good times that can be drawn upon in periods of stress; and adopt a global minimum liquidity standard.[232]

During the G20 Finance Ministers and Central Bank Governors meeting in Busan, Korea, on 5 June 2010, the dignitaries called on the BCBS to "propose internationally agreed rules to improve both quantity and quality of bank capital and to discourage excessive leverage and risk taking by the November 2010 Seoul Summit."[233] The official Basel III framework was put forth by the BCBS to the international community on 26 July 2010.[234] During the G20 Seoul Summit, 11-12 November 2010, *The Seoul Summit Document* outlined the leaders' commitment to translate the framework into national laws and regulations to be "implemented starting on January 1, 2013, and fully phased in by January 1, 2019."

Table 7: Basel III Requirements for Risk-Weighted Assets (%)

Capital Requirements							Macroprudential Overlay	
Common Equity			Tier 1 Capital		Total Capital		Counter-cyclical buffer	Additional loss absorbing capacity for SIFIs
Min	Conservation Buffer	Required	Min	Required	Min	Required	Range	
4.5	2.5	7.0	6	8.5	8	10.5	0 – 2.5	Yet to be defined

Commitment Features:
G20 member compliance to this commitment can be measured according to their performance in two key areas. First, G20 members are required to translate the Basel III framework into their national laws and regulations. Second, members must implement policies to align with the new capital and liquidity standards, beginning in 2013.

Thus in order to comply fully with the commitment, members are required to take steps toward translating Basel III bank capital and liquidity standards into national laws and regulations. Such steps could include initiating a public consultation process on Basel III guidelines, conducting stress tests to determine the health of major banks, or making public announcements regarding regulators' progress in implementing Basel III regulations. Since the deadlines for implementation of Basel III are set beyond the upcoming Cannes Summit, full implementation of Basel III regulations will not be required to be awarded a score for full compliance. In addition, because the Basel III framework was drafted in 2009, prior to the G20 Seoul Summit, actions taken by G20 members prior to the summit will be counted towards the final score.

[232] Strengthening the resilience of the banking sector, Basel Committee on Banking Supervision (Basel) December 2009. Date of Access: 23 March 2011.http://www.bis.org/publ/bcbs164.htm
[233] Communiqué – Meeting of Finance Ministers and Central Bank Governors, Presidential Committee For G20 Summit 5 June 2010. Date of Access: 20 April 2010.
http://www.g20.org/Documents/201006_Communique_Busan.pdf
[234] The Group of Governors and Heads of Supervision reach broad agreement on Basel Committee capital and liquidity reform package, Basel Committee on Banking Supervision (Basel) 27 July 2010. Date of Access: 19 April 2011. http://www.bis.org/press/p100726.htm

Scoring Guidelines:

-1	Member fails to take any action or to declare intent to take action to translate the new bank capital and liquidity standards into national laws and regulations, as per the Basel III accords.
0	Member declares intent to take action to translate new bank capital and liquidity standards into national laws and regulations.
+1	Member takes action to translate the new bank capital and liquidity standards into national laws and regulations, as per the Basel III accords.

Argentina: -1
Argentina has failed to take action to implement the bank capital and liquidity standards set in the Basel III framework. Argentine authorities have not announced any concrete plans to implement Basel III reforms.[235]

An April 2011 FSB survey Argentina's compliance with G20 reform measures noted that Argentina intended to "assess the way of implementing bank capital adequacy and liquidity requirements, including the Basel II Capital Framework."[236] The report also noted that the BCRA would begin to discuss the possibility of implementing Basel III capitalization and liquidity standards post- December 2010. [237]

A June 2011 report on financial stability by the Central Bank of Argentina (CBRA) noted that major Argentine banks' capitalization levels stood near 16.5% risk weighted assets. Though Argentine designations regarding risk-weighted assets may differ from Basel III designations, these levels put Argentine banks on track to comply with Basel III capitalization requirements.[238]

Hence Argentina registers a score of -1 for failing to declare its intent to translate the new bank capital and liquidity standards into national laws and regulations, as per the Basel III accords.

Analysts: Sarah Ellis and Robin Elliott

Australia: +1
Australia has fully complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework. Australian regulatory authorities have begun to adapt Basel III reforms into domestic financial legislation and have provided Australian banks with the means to begin compliance.

On 17 December 2010, the Australian Prudential Authority and the Reserve Bank of Australia (RBA) jointly released details of their plan of action to allow Australian banks to meet new global liquidity standards. Banks will be allowed to establish committed secure liquidity facilities with the RBA, where they can store adequate capital to meet their potential needs under a financial stress situation.[239] The standard is expected to come into effect 1 January 2015.

FSB – G20 Monitoring Progress – Argentina September 2010 (with updates), Financial Stability Board (Basel) 1 April 2011. Date of Access: 10 April 2011 http://www.financialstabilityboard.org/publications/r_110401a.pdf

[236] G20- Monitoring Progress – Argentina September 2010, Financial Stability Board (Basel) April 2011. Date of Access: 1 October 2011. http://www.financialstabilityboard.org/publications/r_110401a.pdf

[237] G20- Monitoring Progress – Argentina September 2010, Financial Stability Board (Basel) April 2011. Date of Access: 1 October 2011. http://www.financialstabilityboard.org/publications/r_110401a.pdf

[238] Report on Banks, Argentine Central Bank (Buenos Aires) June 2011. Date of Access: 1 October 2011. http://www.bcra.gov.ar/estfin/efi020300_i.asp

[239] Australian implementation of global liquidity standards, Australian Prudential Authority (Canberra) 17 December 2010. Date of Access: 2 April 2011. http://www.apra.gov.au/mediareleases/pages/mediareleases.aspx?ys=2011&ye=2011&pg=1

On 28 February 2011, the Australian Prudential Regulation Authority released further details on the kind of assets would be accepted for holding in the secure liquidity facilities at the RBA.[240] Assets that qualify as Level 1 under Basel III rules are limited to: (1) cash, (2) balances held with the RBA, and (3) Commonwealth Government and semi-government securities. No assets will qualify as Level 2.

On 23 March 2011, the Reserve Bank of Australia released its semi-annual financial stability review, wherein it stated that Australian banks have, on average, Basel III Tier 1 capital ratios of approximately 3.5 percent of liabilities, less than the required levels.[241]

On 6 September 2011, the Australian Prudential Regulation Authority (APRA) announced that it would adopt the minimum Basel III requirements, including capital buffer regimes and the leverage ratio. APRA will still maintain some national-specific rules regarding treatment of investments in non-consolidated financial institutions, but will align several of their current policies for definitions and requirements of authorized deposit-taking institutions. The timeline for adoption of the full Basel III standards will be shorter than the original Basel III proposal requires.[242]

Hence Australia registers a score of +1 for stating its progress towards integration of Basel III, and for taking regulatory steps to enable domestic bank participation in Basel III, and conducting an examination of the financial health of its banks.

Analyst: Tobias McVey

Brazil: +1

Brazil has fully complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework.

On 17 February 2011, the Central Bank of Brazil released Notice 20,615, which laid out a timetable for the implementation of Basel III standards on the quality of capital, implementation of countercyclical capital, and leverage ratios two years ahead of the BCBS schedule. The Bank intends to release specific regulations starting in 2011.[243]

However, the largest Brazilian banks have much higher levels of Tier-1 capitalization than banks in many advanced economies. The September 2010 Financial Stability Report published by the Central Bank of Brazil noted that even with new capital requirements and tighter definitions of low-risk capital, most Brazilian banks' capitalization levels were above the minimum requirement set by the Bank. Moreover, the report noted that stress tests of Brazil's major banks found that

[240] APRA Clarifies Implementation of Global Liquidity Standards in Australia, Australian Prudential Authority (Canberra) 28 February 2011. Date of Access: 2 April 2011. http://www.apra.gov.au/mediareleases/11_03.cfm

[241] Financial Stability Review March 2011, Australian Prudential Authority (Canberra) 23 March 2011. Date of Access: 2 April 2011 http://www.rba.gov.au/publications/fsr/2011/mar/pdf/0311.pdf

[242] 'APRA releases discussion paper on implementation of Basel III capital reforms' Australian Prudential Regulation Authority (Canberra) 6 September 2011. Date of Access: 28 September 2011. http://www.apra.gov.au/MediaReleases/Pages/11_14.aspx

[243] Banco Central Do Brazil: Comunicado N. 020615, Central Bank of Brazil (Brasilia) 17 February 2011. Date of Access: 1 April 2011. https://www3.bcb.gov.br/normativo/detalharNormativo.do?method=detalharNormativo&N=111011733

even in situations of macroeconomic deterioration, those banks' total capital ratios would remain above 11 percent.[244]

Brazil has publicly announced an implementation timeline for Basel III liquidity and capital standards. Therefore, it has been awarded a score of +1.

Analysts: Sarah Ellis and Robin Elliott

Canada: +1

Canada has fully complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework. The Office of the Superintendent of Financial Institutions (OSFI) has made Basel III part of its supervisory framework, and has also conducted a Quantitative Impact Study on the Canadian banking sector.[245]

On 12 January 2011, Finance Minister Jim Flaherty, during a speech delivered at the Woodrow Wilson Institute, stated that the Canadian regulatory authorities were well positioned to transition to the new Basel III standards on capital and leverage "ahead of the deadline."[246]

On 1 February 2011, the Office of the Superintendent of Financial Institutions Canada (OSFI) sent a letter to Canadian financial institutions with general details of the regulatory changes it intended to make to as a result of the new Basel III requirements.[247] On 3 February 2011, the OSFI released the results of its consultation with financial industry members, which was conducted in early 2010.[248] Further, the OFSI released a supplementary advisory clarifying its intended treatment of non-qualifying capital instruments under a new Basel III-compliant supervisory scheme.[249]

On 24 February 2011, the OSFI released a new Supervisory framework that details the process the OSFI uses to supervise federally regulated financial institutions and its approach to adopting the Basel III framework.[250]

[244] Financial Stability Report, Central Bank of Brazil (Brasilia) September 2010. Date of Access: 29 September 2011. http://www.bcb.gov.br/?FSR201009

[245] Basel III Implementation – Capital Adequacy and Liquidity Requirements, Office of the Superintendent of Financial Institutions (Ottawa) 1 February 2011. Date of Access: 2 April 2011. http://www.osfibsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/advisories/cptlq_e.pdf

[246] Speech by the Honourable Jim Flaherty, Minister of Finance, at a Director's Forum co-sponsored by the Woodrow Wilson International Center for Scholars' Canada Institute and the Program on America and the Global Economy, Ministry of Finance (Ottawa) 12 January 2011. Date of Access: 2 April 2011. http://www.fin.gc.ca/n11/11-001_1-eng.asp

[247] Basel III Implementation – Capital Adequacy and Liquidity Requirements, Office of the Superintendent of Financial Institutions (Ottawa) 1 February 2011. Date of Access: 2 April 2011. http://www.osfibsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/advisories/cptlq_e.pdf

[248] Overview of the Financial Institutions Survey Findings, Office of the Superintendent of Financial Institutions (Ottawa) 3 February 2011. Date of Access: 2 April 2011. http://www.osfibsif.gc.ca/app/DocRepository/1/eng/reports/osfi/FIS_let_e.pdf

[249] Non-Viability Contingent Capital, Office of the Superintendent of Financial Institutions (Ottawa) 4 February 2011. Date of Access: 2 April 2011. http://www.osfibsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/advisories/nvcc_dft_e.pdf

[250] Supervisory Framework, Office of the Superintendent of Financial Institutions (Ottawa) 24 February 2011. Date of Access: 2 April 2011. http://www.osfibsif.gc.ca/app/DocRepository/1/eng/practices/supervisory/sframew_e.pdf

On 25 September 2011, Governor of the Bank of Canada Mark Carney, while at the International Institute of Finance, reiterated the commitment of the Bank of Canada to fully adopting Basel III rules. He underlined that Canadian banks already pass the maximum capital requirement ratio levels that are expected to be maintained in the long run, and that overall compliance by other states would not be due until 2019.[251] He further addressed criticism of the Basel III framework in a public statement, outlining the BOC's official position on the importance and advantages of banking reform.[252]

Thus Canada has been awarded a score of +1 for its announcement of intent to enact Basel III, for its inclusion of Basel III into its financial supervisory framework, for its analysis of the financial health of its banking sector, and for taking action to translate the Basel III standards into national regulations.

Analyst: Tobias McVey

China: +1

China has fully complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework. The regulatory authorities have investigated the health of Chinese banks and have set capital adequacy ratios higher than those recommended by Basel III.

On 18 February 2011, the China Banking Regulatory Committee (CBRC) stated that China's commercial banks had a weighted average capital adequacy ratio of 12.2%, and a weighted average core capital adequacy ratio of 10.1%. At the end of 2010, all commercial banks exceeded the minimum capital adequacy ratio of 8%.[253]

In March 2011, the CBRC issued its Annual Report 2010, in which CBRC Chair Liu Minkang stated that the CBRC had developed roadmaps for the implementation of Basel II and Basel III frameworks.[254] The report also stated that the CBRC had required commercial banks to retain a capital conservation buffer, and maintain a minimum capital adequacy ratio of 8%.[255]

On 26 August 2011, Chinese regulators started a public review process for new regulations on Chinese banks' capital adequacy ratios, which would set capital adequacy ratios for systemically important banks to 11.5%.[256]

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[251] Financial System Reform Initiatives Mark Real Progress, Says Mark Carney, Governor of the Bank of Canada', Bank of Canada (Ottawa) 25 September. Date of Access: 28 September 2011. http://www.bankofcanada.ca/2011/09/press-releases/financial-system-reform-initiatives/

[252] Some Current Issues in Financial Reform, International Institute of Finance (Washington D.C.) 25 September. Date of Access: 28 September 2011. http://www.bankofcanada.ca/wp-content/uploads/2011/09/sp250911.pdf

[253] The CBRC: Banking Capital Adequacy Ratio Keeps Steady Growth, China Banking Regulatory Commission (Beijing) 18 February 2011. Date of Access: 1 April 2011. http://www.cbrc.gov.cn/english/home/jsp/docView.jsp?docID=20110308B5A5B4736A3CED0CFFE7390614AC6C00

[254] China Banking Regulatory Commission, Annual Report 2010, China Banking Regulatory Commission (Beijing) March 2011. Date of Access: 1 April 2011. http://zhuanti.cbrc.gov.cn/subject/subject/nianbao2010/english/zxzc.pdf, at p.8.

[255] China Banking Regulatory Commission, Annual Report 2010, China Banking Regulatory Commission (Beijing) March 2011. Date of Access: 1 April 2011. http://zhuanti.cbrc.gov.cn/subject/subject/nianbao2010/english/5.pdf, at p.66.

[256] "Basel III: Chinese Banks Saving for New Capital Adequacy Ratio." Reuters (Hong Kong) 26 August 2011. Date of Access: 29 September 2011. http://blogs.reuters.com/financial-regulatory-forum/2011/08/26/basel-iii-chinese-banks-saving-for-new-capital-adequacy-ratio/

On 8 September 2011, Accenture, a major consulting firm, released a report which provided an overview of Basel III's broader implications for Asian banking systems. According to the report, Basel III would have a limited impact on China's commercial banks in the short-term because from a Basel III perspective, the capital structures at Chinese commercial banks are healthy as they mainly comprise share capital and subordinated debt. However, the report also points to challenges Chinese banks might encounter in the future as those banks continue to grow. The report identified five main challenges: (1) adjustment in capital composition, (2) enhanced risk coverage, (3) introduction of "leverage ratio," (4) reduced "pro-cyclicality," and (5) determination of the liquidity standards. According to Accenture, the "combination of these factors will put long-term pressure on China's banks to broaden their income sources and better manage risk by transforming their operating models."[257]

Thus China has been awarded a score of +1 for its examination of its financial sector, its declaration of intent to enact Basel III, and for taking action to translate the Basel III standards into national regulations.

Analysts: Sarah Ellis and Robin Elliott

France: +1

France has fully complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework. France took part in the EU-wide banking stress tests in 2010.

On 23 July 2010, the Bank of France announced that it had completed its part of the EU-wide banking stress tests, and stated that "French banks are among the strongest in Europe."[258]

Under the auspices of the European Union, France will be subject to Capital Requirements Directive 4 (CRD 4). Adopted in October 2010, the CRD4 is a comprehensive supervisory framework for the financial services industry on capital standards and measurements that will require the new capital and liquidity standards to be adopted with due regard to the economic cycle and ongoing economic recovery.[259]

On 20 July 2011, the new European framework for capital requirements formally replaced Capital Requirements Directive 4 and placed a new harmonized capital requirement ratio before the European Commission.[260]

Also on 20 July 2011, the European Bank Authority published its 2011 stress test results. According to the report, all four French banks selected for the stress test met the initial Core Tier

[257] Beyond Basel III: The Future of High Performance in Chinese Banks, Accenture Consulting (Greater China) 8 September 2011. Date of Access: 16 October 2011.http://www.accenture.com/us-en/Pages/insight-beyond-basel-iii-future-high-performance-chinese-banks.aspx

[258] Press release – Results of the EU-wide stress test: "French banks among the strongest in Europe," Bank of France (Paris) 23 July 2010. Date of Access: 2 April 2011. http://www.banque-france.fr/acp/stress-tests/20100723-communique-gb-results.pdf

[259] European Parliament resolution of 7 October 2010 on Basel II and revision of the Capital Requirements Directives (CRD 4), European Parliament (Brussels) 7 October 2011. Date of Access: 30 March 2011. http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0354+0+DOC+XML+V0//EN&language=EN

[260] Regulatory Capital, European Commission (Brussels) 20 July 2011. Date of Access: 26 September 2011. http://ec.europa.eu/internal_market/bank/regcapital/index_en.htm

1 capital requirement of 5%. The banks were Credit Agricole (8.5%)[261], BNP Paribas (7.9%)[262], Groupe BPCE (6.7%)[263] and Societe Generale (6.6%).[264]

On 18 September 2011, Governor Christian Noye of the Bank of France urged French banks to cut dividends and retain larger portions of their profits as part of the capitalization process, facing all European banks.[265]

Thus France receives a score of +1 for its examination of its financial sector by participating in EU-wide banking stress tests ad for participating in EU-wide financial regulatory reform efforts.

Analyst: Tobias McVey

Germany: +1

Germany has full complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework. Germany took part in the EU-wide banking stress tests in 2010.

On 23 July 2010, the Bundesbank and the Federal Financial Supervisory Authority announced that they had completed Germany's part of the EU-wide banking stress tests.[266]

Under the auspices of the European Union, Germany will be subject to Capital Requirements Directive 4 (CRD 4). Adopted in October 2010, the CRD4 is a comprehensive supervisory framework for the financial services industry on capital standards and measurements that will require the new capital and liquidity standards to be adopted with due regard to the economic cycle and ongoing economic recovery.[267]

On 15 July 2011, Germany's banks passed the second round of stress tests carried out by the European Banking Authority. The German banks selected for the stress test passed with a capital adequacy ratio with an arithmetic average of 11.3%.[268]

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[261] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 26 September 2011. http://stress-test.eba.europa.eu/pdf/bank/FR014.pdf

[262] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 26 September 2011. http://stress-test.eba.europa.eu/pdf/bank/FR013.pdf

[263] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 26 September 2011. http://stress-test.eba.europa.eu/pdf/bank/FR015.pdf

[264] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority. (London) 15 July 2011. Date of Access: 26 September 2011. http://stress-test.eba.europa.eu/pdf/bank/FR016.pdf

[265] Analysis: Bank woes could stymie France's recovery, AP Reuters (London) 18 September 2011. Date of Access: 26 September 2011. http://www.reuters.com/article/2011/09/18/us-france-economy-banks-idUSTRE78H1MV20110918

[266] Results of the EU-wide stress test for Germany, Bundesbank (Frankfurt am Main) 23 July 2010. Date of Access: 2 April 2011. http://www.bundesbank.de/download/bankenaufsicht/pdf/cebs/stresstest/20100723.pn_stresstest_os.en.pdf

[267] European Parliament resolution of 7 October 2010 on Basel II and revision of the Capital Requirements Directives (CRD 4), European Parliament (Brussels) 7 October 2011. Date of Access: 30 March 2011. http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0354+0+DOC+XML+V0//EN&language=EN

[268] "EU-wide stress test 2011", The Federal Financial Supervisory Authority. (Frankfurt am Main) 15 July 2011. Date of Access: 26 September 2011. http://www.bafin.de/cln_161/nn_2110306/EN/Companies/Banksfinancialservicesproviders/Stresstests__2011/stresstest__2011__node.html?__nnn=true#F1

On 20 July 2011, the new European framework for capital requirements formally replaced Capital Requirements Directive 4 and placed a new harmonized capital requirement ratio before the European Commission.[269] It has not yet been voted on in the German Bundestag.

Thus Germany receives a score of +1 for its examination of its financial sector through participating in EU-wide banking stress tests and for participating in EU-wide financial reform efforts.

Analyst: Tobias McVey

India: 0

India has partially complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework. Indian regulatory authorities have announced that they are evaluating Basel III implementation, and have conducted stress testing and financial health examinations on the Indian banking sector.

On 3 December 2010, Reserve Bank of India Governor Dr. Duvvuri Subbarao stated that India was well-positioned to comply with Basel III capital requirements.[270] The majority of Indian banks already complies with the requirements. As of 30 June 2010, Indian banks' capital to risk weighted assets ratio was 11.7%, versus the 10.5% required; their Tier 1 capital represented 9% of risk-adjusted assets, versus the 8.5% required; their common equity represented 7.4% of risk-adjusted assets, versus the 7% required. Dr. Subbarao stated that those few banks that were not already compliant should have no difficulty meeting Basel III standards by 2019.[271]

On 30 December 2010, the Reserve Bank of India released the quarterly results of their stress-testing of the Indian banking sector. They reiterated that they will continue to carry out stress testing on a continuous basis.[272] On 7 January 2011, Dr. Subbarao stated that the Reserve Bank of India was "in the process of evaluating the impact of Basel III on Indian banks."[273]

On 25 August 2011, Deputy Governor of the Reserve Bank of India (RBI) Anand Sinha announced that the RBI is working toward adapting Indian liquidity and capital requirements to comply with Basel III norms.[274]

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[269] Regulatory Capital, European Commission (Brussels) 20 July 2011. Date of Access: 26 September 2011. http://ec.europa.eu/internal_market/bank/regcapital/index_en.htm

[270] Five Frontier Issues in Indian Banking: Inaugural Address by Dr. Duvvuri Subbarao, Governor, Reserve Bank of India at 'BANCON 2010' in Mumbai on December 3, 2010, Reserve Bank of India (New Delhi) 3 December 2010. Date of Access: April 1 2011. http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=539

[271] Five Frontier Issues in Indian Banking: Inaugural Address by Dr. Duvvuri Subbarao, Governor, Reserve Bank of India at 'BANCON 2010' in Mumbai on December 3, 2010, Reserve Bank of India (New Delhi) 3 December 2010. Date of Access: April 1 2011. http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=539

[272] Financial Stability Report Chapter VI : Resilience of Indian Banking Sector, Reserve Bank of India (New Delhi) 30 December 2010. Date of Access: 3 April 2011. http://rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=607

[273] Dilemmas in Central Bank Communication Some Reflections Based on Recent Experience: Second Business Standard Annual Lecture delivered by Dr. Duvvuri Subbarao, Governor, Reserve Bank of India, at New Delhi on January 7, 2011, Reserve Bank of India (New Delhi) 7 January 2011. Date of Access: 2 April 2011. http://www.rbi.org.in/SCRIPTs/BS_SpeechesView.aspx?Id=544

[274] Indian Banks will Need More Equity for Basel III, Business Standard (Mumbai) 25 August 2011. Date of Access: 1 April 2011. http://www.business-standard.com/india/news/indian-banks-will-need-more-equity-for-basel-iii/446955/

Thus India receives a score of 0 for its examination of its financial sector and its declaration of intent to enact Basel III reforms according to the recommended timeline.

Analysts: Sarah Ellis and Robin Elliott

Indonesia: +1

Indonesia has fully complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework. Indonesian regulating authorities have stated that: (1) they are enacting Basel III, (2) have made regulatory changes in compliance with the Basel III framework and (3) have examined the financial health of Indonesian banks.

On 15 September 2010, Bank of Indonesia Deputy Governor Halim Alamsyah stated that the Indonesian banking sector was on average already above the capital requirements set out in Basel III, with an average core capital ratio of between 14 and 16%.[275]

On 1 April 2011, the Financial Stability Board published comments from the Indonesian government, in which the latter stated that Basel III regulations were "on [*sic*] the pipeline" and that they would be adopted in a time frame "consistent with Indonesian banking sector conditions." It further stated that it has put in place a new risk-based bank rating system that takes Basel III leverage ratios into account.[276]

Thus Indonesia has been awarded a score of +1 for its examination of its financial sector, its declaration of intent to enact Basel III, and for beginning to take some aspects of the new Basel framework into its domestic regulations.

Analysts: Kelsey Komorowski and Robin Elliott

Italy: +1

Italy has fully complied with its commitment to fully implement the new bank capital and liquidity standards in accordance with the Basel III framework. Italy has: (1) taken part in EU wide banking stress tests, (2) begun to make systemic changes to its banking sector in order to reduce future risk, (3) announced plans for moving towards further reforms, and (4) set up assistance for Italy's banks to transition to Basel III capital and liquidity standards.

On 23 July 2010, the Bank of Italy announced that it had completed its part of the EU-wide banking stress tests.[277] On 26 February 2011, Bank of Italy governor Mario Draghi gave a speech regarding the health of the Italian financial system. He announced that the Bank had "identified many of the perverse incentives that encouraged excessive risk-taking – in banks' executive compensation systems, in the role of rating agencies and in the accounting rules – and begun to rectify them." Draghi also stated that the Bank would draw up parameters for identifying global SIFIs by mid-year. He further remarked that a map of non-bank intermediaries (the "shadow banking system") would be drawn up in order to better regulate such institutions.

[275] Banks Well-Prepared for Basel III, BI Says, Jakarta Post (Jakarta) 15 September 2010. Date of Access: 1 April 2011. http://www.thejakartapost.com/news/2010/09/15/banks-well-prepared-basel-iii-bi-says.html

[276] FSB – G20 Monitoring Progress – Indonesia September 2010 (with updates), Financial Stability Board (Basel) 1 April 2011. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401j.pdf

[277] EU-wide bank stress test, Bank of Italy (Rome) 23 July 2010. Date of Access: 1 April 2011. http://www.bancaditalia.it/vigilanza/stress_test;internal&action=_setlanguage.action?LANGUAGE=en

Finally, Draghi disclosed that Italy's smaller banks already have capitalization levels in line with the Basel III requirements, and that the top five banks had, as of the end of September 2010, Tier 1 capital ratios of 9%, and core Tier 1 capital ratios of 7.9% of risk assets.[278]

On 9 March 2011, the Bank of Italy announced its intention to assist Italian banks in making the transition towards the new Basel III standards. To this end it created a "Basel III Helpdesk" to respond to industry questions.[279]

On July 10 2011, Draghi publically addressed concerns about the effect of Basel III on the Italian economy, in particular the gross domestic product and the 2012 debt reduction plan. He stated that the issues concerning the counterparty risk in transactions of derivatives are under review by the Basel Committee. Draghi pointed out that this issue had been under discussion since the previous Basel II reforms, and had been accounted for in the central bank's estimates of the reforms effect on the Italian economy.[280]

On July 15 2011, the European Banking Authority published the results of its second bank stress tests, including results for Italian banks. These were Intensa Sanpaolo S.p.A (8.9%),[281] Unicredit S.p.A (6.6%),[282] Banca Monte Dei Paschi Di Siena S.p.A (4.7%),[283] Banka Popolare – S.C. (5.0%),[284] and Unione di Banche ItalianeSCPA (UBI Banca) (6.4%).[285] Overall exposure to sovereign debt was higher than in other countries' banks. The longest exposures were to France and Germany.

Thus Italy has been awarded a score of +1 for its examination of its financial sectors, its declaration of intent to enact Basel III, and its assistance of the industry in transitioning towards Basel III.

Analyst: Tobias McVey

Japan: +1

Japan has fully complied with this commitment to fully implement the new bank capital and liquidity standards in accordance with the Basel III framework. The Japanese government has already taken action to increase bank capitalization levels, in line with Basel III

[278] Speech by the Governor of the Bank of Italy Mario Draghi, Bank of Italy (Rome) 26 February 2011. Date of Access: 2 April 2011.
http://www.bancaditalia.it/interventi/integov/2011/forex26022011/en_Draghi_260211.pdf

[279] Comunicazione del 9 marzo 2011 – Funzione di supporto interpretativo al sistema inmerito alla riforma della regolamentazione prudenziale ("Basilea 3"), Bank of Italy (Rome) 9 March 2011. Date of Access: 2 April 2011.
http://www.bancaditalia.it/vigilanza/pubblicazioni/bollvig/2011/03_11/provv_cg/bi_cg/20110309_II1.pdf

[280] Draghi: Nuovi tagli alla spesa pubblica o l'aumento delle tasse è inevitabile, Corriere della Sera (Milan) 13 July 2011. Date of Access: 28 September 2011. http://www.corriere.it/economia/11_luglio_13/bankitalia-decisioni-rapide_d5d51800-ad25-11e0-83b2-951b61194bdf.shtml

[281] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 28 September 2011. http://stress-test.eba.europa.eu/pdf/bank/IT040.pdf

[282] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 28 September 2011. http://stress-test.eba.europa.eu/pdf/bank/IT041.pdf

[283] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 28 September 2011. http://stress-test.eba.europa.eu/pdf/bank/IT042.pdf

[284] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 28 September 2011. http://stress-test.eba.europa.eu/pdf/bank/IT043.pdf

[285] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority. (London) 15 July 2011. Date of Access: 28 September 2011. http://stress-test.eba.europa.eu/pdf/bank/IT044.pdf

recommendations, and has established a timeline for the implementation of Basel III minimum capitalization levels.

The September 2010 Financial Stability Report released by the Bank of Japan noted that Japan's banks' capitalization levels had steadily increased after the 2008 financial crisis, though a test scenario conducted by the Bank indicated that several banks' Tier-1 capital levels might remain at very low levels if subjected to significant stress.[286] The report also indicated that Japanese authorities expected to fully implement Basel III bank capital requirements by the recommended target timeline. [287]

A September 2010 newsletter released by Japan's Financial Services Authority outlined the regulatory timeline it had established for the implementation of Basel III common, Tier 1 and total capital ratios, as well as capital conservation buffers. The newsletter noted that common equity and Tier 1 capital ratios will be raised over the period of January 2013 to January 2015, and that capital conservation buffers would be imposed over the period spanning January 2016 to January 2019.[288]

On 1 April 2011, the Financial Stability Board published a report wherein the Bank of Japan and the Financial Services Authority jointly commented that they intend to implement Basel III rules in a fashion that will not deter banks' lending activities.[289]

Thus Japan is awarded a score of +1 for taking steps toward implementing Basel III regulatory reforms.

Analyst: Tobias McVey

Korea: 0

Korea has partially complied with its commitment to implement the new bank capital and liquidity standards in accordance with the Basel III framework. Korean authorities have not taken steps to enact Basel III reforms but have tested the financial health of its banks against the Basel III criteria.

Korea has adopted the Basel II capital framework as of the end of 2008.[290] On 8 September 2010, Director General of Seoul's G20 Committee, Kim Yong-beom announced that Korean banks will not be required to shrink their assets or raise additional capital as they met Basel III capital-to asset standards.[291] However, he announced that Korean banks will need to take further measures to meet the liquidity ratio standards during the transition period.[292]

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[286] Financial System Report, Bank of Japan (Tokyo) September 2010. Date of Access 17 October 2011. http://www.boj.or.jp/en/research/brp/fsr/data/fsr10b.pdf

[287] Financial System Report, Bank of Japan (Tokyo) September 2010. Date of Access 17 October 2011. http://www.boj.or.jp/en/research/brp/fsr/data/fsr10b.pdf

[288] FSA Newsletter No. 84 2010. Financial Services Agency (Japan). 9 June 2010. Date of Access: 27 March 2011. http://www.fsa.go.jp/en/newsletter/2010/03.pdf

[289] FSB – G20 – Monitoring Progress – Japan September 2010 (with updates), Financial Stability Board (Basel) 1 April 2011. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401j.pdf

[290] FSB – G20 Monitoring Progress – Korea, Financial Stability Board (Basel) 1 April 2011. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401o.pdf

[291] Basel III will not affect Korean banks, Korea Times (Seoul) 8 September 2010. Date of Access: 10 May 2011. http://www.koreatimes.co.kr/www/news/biz/2010/09/123_72742.html

[292] Basel III will not affect Korean banks, Korea Times (Seoul) 8 September 2010. Date of Access: 10 May 2011. http://www.koreatimes.co.kr/www/news/biz/2010/09/123_72742.html

On 17 December 2010, the Financial Services Commission released its analysis of the results of the Basel Committee on Banking Supervision's Quantitative Impact Study. The results of the study have shown that the eight major Korean banks tested, capital ratios under Basel III rules would be on average above 10%, and leverage ratios would be 4.6%.[293]

On 5 September 2011, the Financial Supervisory Service stated that the average capital ratio of nine south Korean bank holding firms was at a record high following the end of the second quarter. The average consolidated capital ratios, based on Basel II measurements, was at 13.78%, up from 13.54% in the first quarter. The FSS attributed the performance to increases in net profits and equity capital. Core Tier 1 Capital was at 10.50%, up from 10.29%. The FSS stated it would continue to monitor the development towards meeting Basel III standards.[294]

On 26 September 2011, The Financial Supervisory Service urged Korean banks to retain more capital, in particular foreign-currency liquidity, as a result of fear in financial markets. The FSS implied that they would consider employing another round of stress tests soon, after recently completing new rounds of tests on capital leverage ratios. The FSS Governor Kwon Hyouk Se told national lawmakers that Korean banks would weather the 'worst-case scenario' on foreign-currency liquidity.[295]

Thus Korea receives a score of 0 for having repeatedly conducted financial health testing for major banks under Basel III rules, and for raising financial holdings of capital to Basel II levels with the aim of reaching Basel III requirements.

Analyst: Tobias McVey

Mexico: 0

Mexico has partially complied with its commitment to implement the new bank capital and liquidity standards in accordance with the Basel III framework. Mexican authorities have conducted stress tests of its banking system and have declared Mexico's readiness to implement Basel III ahead of 2013.

On 23 September 2010, the Financial Stability Board released Mexico Country Peer Review. The report stated that the Bank of Mexico was conducting macro stress tests of banks using a recently developed macro model.[296] As of September 2010, Mexican banks had, on average: (1) capitalization ratios above 14%, versus the Basel III requirements of 8%; (2) risk-weighted asset percentages of at least 15%; and (3) a ratio of assets-to-equity of at least 8.[297]

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[293] Basel III Quantitative Impact Study and Its Implications. Financial Services Commission (Seoul) 17 December 2010. Date of Access: 30 March 2011. http://www.fsc.go.kr/downManager?bbsid=BBS0048&no=72729

[294] S Korea Bank Holding Firms' End-2Q Average Capital Ratio At Record High, Wall Street Journal (New York) 5 September. Date of Access: 28 September 2011. http://online.wsj.com/article/BT-CO-20110905-707483.html

[295] Korean Finance Regulator May Boost Forex Stress Tests for Banks, Bloomberg (New York) 26 September. Date of Access: 28 September 2011. http://www.bloomberg.com/news/2011-09-26/korean-finance-regulator-may-boost-forex-stress-tests-for-banks.html

[296] Country Review of Mexico: Peer Review Report, Financial Stability Board (Basel) 23 September 2011. Date of Access: 1 April 2011. http://www.financialstabilityboard.org/publications/r_100927.pdf

[297] Country Review of Mexico: Peer Review Report, Financial Stability Board (Basel) 23 September 2011. Date of Access: 1 April 2011. http://www.financialstabilityboard.org/publications/r_100927.pdf

On 10 January 2011, in a joint press release regarding a new IMF loan, Bank of Mexico Governor Agustin Carstens and Treasury Secretary Ernesto Arroyo stated that Mexico was preparing for the implementation of Basel III.[298] The FSB has reported that in January 2011, the average Total Capital Ratio of the banking system was 17%, the Tier 1 capital was 15%, and all banking institutions registered a level of above 10%.[299]

On 1 April 2011, the Financial Stability Board published a report wherein the government of Mexico stated that its financial authorities were working on the implementation of Basel III guidelines.[300]

The 8 August 2011 IMF Article IV Consultation on Mexico noted that Mexican banks are all in compliance with Basel III capital requirements, and that the Mexican government is "well positioned to adopt the regulatory changes envisaged under Basel III**.**"[301] The report also noted that Mexican authorities plan on implementing Basel III capital requirements by 2012. [302]

Thus Mexico receives a score of 0 for examining its financial sector and declaring its intent to enact Basel III reforms.

Analysts: Sarah Ellis and Robin Elliott

Russia: 0

Russia has partially complied with the commitment on implementing new bank capital and liquidity standards. Russian authorities have stated their intention to adopt Basel III and have launched a review process and public consultations.

On 12 January 2011, the Russian Central bank started public consultations with Russian banks, credit associations and experts on sound practices for the management and supervision of operational risk issued by the Basel Committee.[303]

On 5 April 2011, the Russian Government and the Russian Central Bank adopted the Strategy of Russian Banking Sector Development for the Period up to 2015.[304] The strategy provides for the

[298] El Directorio Ejecutivo del FMI aprobó hoy la Línea de Crédito Flexible, de alrededor de 72 mil millones de dólares para México por dos años, Bank of Mexico (Mexico City) 10 January 2011. Date of Access: 4 April 2011. http://www.shcp.gob.mx/documentos_recientes_bliblioteca/comunicado_comision_de_cambios_10ene11.pdf

[299] FSB – G20 Monitoring Progress – Mexico, Financial Stability Board (Basel) 1 April 2011. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401m.pdf

[300] FSB – G20 – Monitoring Progress – Mexico September 2010 (with updates), Financial Stability Board (Basel) 1 April 2011. Date of Access: 10 April 2011. http://www.financialstabilityboard.org/publications/r_110401m.pdf

[301] Article IV Consultation on Mexico, International Monetary Fund (Washington D.C.) 8 August 2011. Date of Access: 30 September 2011. http://www.imf.org/external/pubs/ft/scr/2011/cr11250.pdf

[302] Article IV Consultation on Mexico, International Monetary Fund (Washington D.C.) 8 August 2011. Date of Access: 30 September 2011. http://www.imf.org/external/pubs/ft/scr/2011/cr11250.pdf

[303] About the Press Release of the Basel Committee on Banking Supervision, Bank of Russia (Moscow) 12 January 2011. Date of Access: 4 April 2011. http://cbr.ru/Press/Archive_get_blob.asp?doc_id=110112_130157bazel.htm.

[304] Strategy of Russian Banking Sector Development for the Period up to 2015, Ministry of Finance of the Russian Federation (Moscow) 13 April 2011. Date of Access: 26 May 2011. http://www1.minfin.ru/ru/official/index.php?id4=12478.

beginning of Basel III standards introduction in Russia in 2012 and their complete adoption in 2018.[305]

Russia has declared its intent to undertake measures aimed at translating new bank capital and liquidity standards into national laws and regulations. However, these measures have not been taken yet. Thus, Russia has been awarded a score of 0.

Analyst: Andrey Shelepov

Saudi Arabia: +1

Saudi Arabia has fully complied with its commitment to implement the new bank capital and liquidity standards in accordance with the Basel III framework. Saudi Arabia has participated in bilateral discussions with the International Monetary Fund on aligning its banking system with Basel III requirements, and has incorporated Basel III reform proposals into its short- and long-term economic development framework.

On 23 August 2011, the International Monetary Fund released a public information notice confirming that banks in Saudi Arabia remain "highly liquid and continue to hold capital well in excess of statutory limits."[306] Directors of the IMF Executive Board "encouraged [Saudi Arabia's] central bank to continue to strengthen the regulatory and supervisory framework, including by aligning the legal framework with actual practice."[307]

In September 2011, the International Monetary Fund issued a Country Report on Saudi Arabia, noting that preparations are "well underway for a move to Basel III," and identifying further capital market development as a policy priority for the Kingdom.[308] According to this report, Saudi Arabia's "Basel Core Principles assessment showed a high degree of compliance with international best practices but identified some areas—such as bank resolution (notably the absence of a special resolution regime)—where the legal framework could be updated to better reflect existing practices."[309]

Moreover, according to Al Rajhi Capital's Economic Research briefing on Saudi Arabia, the Kingdom's transition to Basel III capital requirements will be smooth due to the country's already-high capital requirements for banks. According to the report, "Although adoption of the proposed measures will require banks to maintain both higher capital ratios and better-quality capital, the transition for the well-capitalized Saudi banks is likely to be smooth."[310]

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[305] Strategy of Russian Banking Sector Development for the Period up to 2015, Ministry of Finance of the Russian Federation (Moscow) 13 April 2011. Date of Access: 26 May 2011. http://www1.minfin.ru/ru/official/index.php?id4=12478.

[306] IMF Executive Board Concludes 2011 Article IV Consultation with Saudi Arabia - Public Information Notice (PIN) No. 11/114, International Monetary Fund (Washington, D.C.) 23 August 2011. Date of Access: 8 October 2011. http://www.imf.org/external/np/sec/pn/2011/pn11114.htm.

[307] IMF Executive Board Concludes 2011 Article IV Consultation with Saudi Arabia - Public Information Notice (PIN) No. 11/114, International Monetary Fund (Washington, D.C.) 23 August 2011. Date of Access: 8 October 2011. http://www.imf.org/external/np/sec/pn/2011/pn11114.htm.

[308] IMF Country Report No.11/292, International Monetary Fund (Washington, D.C.) September 2011. Date of Access: 8 October 2011. http://www.imf.org/external/pubs/ft/scr/2011/cr11292.pdf.

[309] IMF Country Report No.11/292, International Monetary Fund (Washington, D.C.) September 2011. Date of Access: 8 October 2011. http://www.imf.org/external/pubs/ft/scr/2011/cr11292.pdf.

[310] Economic Research – Saudi Arabia, Al Rajhi Capital (Saudi Arabia) 27 September 2010. Date of Access 12 August 2010. http://www.alrajhi-capital.com/NR/rdonlyres/F69FC23A-3BDC-47D3-8A40-8E0EFBEBD199/1106/Basel3Apracticalapproach_English.pdf

Thus Saudi Arabia receives a score of +1 for its examination of its financial sector, its declaration of intent to enact Basel III, and for taking action to translate the Basel III standards into national regulations.

Analysts: Kelsey Komorowski and Robin Elliott

South Africa: +1

South Africa has fully complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework. It has investigated the financial health of its banks, and has drafted amendments to its financial laws to improve stability.

On 23 February 2011, the South African National Treasury released a report on the South African financial sector, which outlined both its financial health, and the Treasury's progress on Basel III reforms. The Treasury stated that the banks' current leverage ratio was far more conservative than that required by Basel III. Consequently, there was no requirement for South African banks to either raise capital or deleverage, even to meet the new capital conservation buffer requirement. The Treasury further revealed that it had already sent three drafts of proposed amendments to the Banks Act out for comments. After receiving comments, the Treasury expects that the amended regulations will be submitted to the Finance Ministry for approval by mid-2011.[311]

A 7 July 2011 Article IV Staff Consultation Report on South Africa noted that South African regulators have begun preparing to introduce financial regulations consistent with Basel III standards.[312]

Thus, South Africa has received a score of +1 for examining the state of its financial sector and taking steps to translate the Basel III framework into national laws and regulations.

Analysts: Sarah Ellis and Robin Elliott

Turkey: +1

Turkey has fully complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework. Turkey has committed to the provision of permanent liquidity to its banking system, has held bank stress tests and has investigated the health of its financial sector to gauge the extent of its Basel III compliance.

On 29 November 2010, the Banking Regulation and Supervision Agency of Turkey published a report entitled "Questions on Basel III." It stated that Turkey's banking sector would easily be able to meet the new Basel III requirements, with a current capital ratio of 9.9%. It furthermore stated that as of June 2010, the Turkish banking sector had a capital adequacy ratio of 19.9%, and concluded that Turkish banking reforms carried out in 2006 what had made domestic banks largely Basel III-compliant already.[313]

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[311] A Safer Financial Sector to Serve South Africa Better, South African National Treasury (Pretoria) 23 February 2011. Date of Access: 5 April 2011. http://www.treasury.gov.za/documents/national budget/2011/A safer financial sector to serve South Africa better.pdf

[312] South Africa Article IV Consultation, International Monetary Fund (Washington) 7 July 2011. Date of Access: 30 September 2011. http://www.imf.org/external/pubs/ft/scr/2011/cr11258.pdf

[313] Sorularla Basel III, Banking Regulation and Supervision Agency of Turkey (Ankara) 29 November 2010. Date of Access: 4 April 2010. http://www.bddk.gov.tr/WebSitesi/turkce/Basel/8742sorularla_basel_iii_29_11_2010_.pdf

On 30 May 2011, Turkey hosted a conference entitled "Basel III: The new architecture of the International Banking & Financial System and Implications on Turkish Banks."[314] This conference yielded multi-stakeholder consultations amongst senior level management from Turkish banks, Turkey's IMF Director, as well as other Turkish and European regulators and bankers on different topics pertaining to Basel III implementation in Turkey. On 1 June 2011, bank stress tests were conducted in Istanbul as a part of this conference.

In September 2011, the World Bank issued a report confirming that Turkish banks appear to be highly capitalized and "highly liquid, with stable coverage ratios of their external liabilities."[315]

On 12 September 2011, the Central Bank of the Republic of Turkey decided on the provision of "Turkish lira liquidity permanently…to the Turkish banking system."[316]

Thus Turkey receives a score of +1 for its stated intent and demonstrated interest to comply with Basel III requirements, as well as policy changes in its banking system consistent with the Basel III framework.

Analysts: Kelsey Komorowski and Robin Elliott

United Kingdom: +1

The United Kingdom has fully complied with its commitment to implement the new bank capital and liquidity standards in accordance with the Basel III framework. It has conducted banking stress tests, has stated that it intends to strengthen financial regulations, and has adopted Basel III standards into its supervisory framework.

On 23 July 2010, the UK Financial Services Authority (FSA) announced that it had completed its part of the EU-wide banking stress tests.[317]

On 16 February 2011, FSA Chairman Adair Turner announced that for 2011, "a key policy objective … is to ensure that Financial Stability Board (FSB) decisions on SIFIs result in higher than Basel III equity requirements for our most systemically important banks." He further stated that the Financial Stability Board was developing recommendations on how regulators should monitor and if necessary regulate shadow banking activities.[318]

On 17 March 2011, the FSA published its Prudential Risk Outlook 2011, wherein it stated that until the Basel III framework had been passed into law, both domestically and through the EU, it

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[314] Conference Overview - Basel III: The new architecture of the International Banking & Financial System and Implications on Turkish Banks, Institute for International Research (Vienna) 2011. Date of Access: 9 October 2011. http://www.ostfalia.de/export/sites/default/de/r/Pressespiegel/Pressespiegel_downloads/2011/110530_IIR_xsterreich_Basel_III_T3501_englishx1x.pdf.

[315] World Bank-Turkey Partnership: Country Program Snapshop, World Bank (Washington, D.C.) September 2011. Date of Access: 9 October 2011. http://siteresources.worldbank.org/INTTURKEY/Overview/23000030/Turkey_CountryProgramSnapshot.pdf.

[316] Press release on FX reserves and additional required reserves facility, Central Bank of the Republic of Turkey (Ankara) 5 October 2011. Date of Access: 8 October 2011. http://www.tcmb.gov.tr/yeni/announce/2011/ANO2011-42.htm

[317] FSA Statement on the Publication of CEBS Stress Tests, Financial Services Authority (London) 23 July 2010. Date of Access: 2 April 2011. http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/125.shtml

[318] Leverage, Maturity Transformation and Financial Stability: Challenges Beyond Basel III, Financial Services Authority (London) 16 February 2011. Date of Access: 2 April 2011. http://www.fsa.gov.uk/pubs/speeches/031611_at.pdf

planned to keep in place an interim capital framework with certain features that mirror the Basel III requirements. These include an increase in the minimum common equity capital ratio to 4.5% of risk-weighted assets, phased in between 2013 and 2015; the addition of a capital conservation buffer of 2.5% of risk-weighted assets to be phased in between 2016 and 2019; a minimum Tier 1 capital ratio of 6% and a minimum total capital ratio of 8%, phased in between 2013 and 2015.[319]

On 15 July 2011, British banks passed the second rounds of the European Banking Authority's stress tests. Royal Bank of Scotland (6.3%),[320] HSBC Holdings (8.5%),[321] Barclays (7.3%)[322] and Lloyds Banking Group (7.7%)[323] all passed the standards requirements with exposure to sovereign debt.

On 12 September 2011, Sir John Vickers, head of the Independent Commission on Banking, published the ICB's final report, including proposals for banking reform to the Chancellor of the Exchequer. The report promoted greater regulatory oversight than is proposed in Basel III, including the legal separation of commercial and investment banking services.[324]

Thus the United Kingdom receives a score of +1 for its examination of its financial sector, its declaration of intent to enact Basel III, and for taking action to translate the Basel III standards into national regulations.

Analyst: Tobias McVey

United States: 0

The United States has fully complied with its commitment to implement the new bank capital and liquidity standards in accordance with the Basel III framework. The US has enacted a financial sector reform bill, and has declared that it is committed to incorporating Basel III into its domestic law.

On 21 July 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. S.165(i)(1)(A) of the Dodd-Frank Act requires regulators to carry out yearly stress tests for nonbank financial institutions. It also obliges these same companies to carry out semi-annual stress tests. Section 171 sets out some general rules regarding bank capital requirement, but does not define actual required levels of Tier 1 capital. The Dodd-Frank Act does not make transposition of the Basel III agreement mandatory.[325]

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[319] FSA Prudential Risk Outlook 2011, Financial Services Authority (London) 17 March 2011. Date of Access: 2 April 2011. http://www.fsa.gov.uk/pubs/other/pro.pdf

[320] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 26 September 2011. http://stress-test.eba.europa.eu/pdf/bank/GB088.pdf

[321] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 26 September 2011. http://stress-test.eba.europa.eu/pdf/bank/GB089.pdf

[322] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 26 September 2011. http://stress-test.eba.europa.eu/pdf/bank/GB090.pdf

[323] Results of the 2011 EBA EU-wide stress test: Summary, European Banking Authority (London) 15 July 2011. Date of Access: 26 September 2011. http://stress-test.eba.europa.eu/pdf/bank/GB091.pdf

[324] Final Report, Independent Commission on Banking (London) 12 September 2011. Date of Access: 26 September 2011. http://bankingcommission.s3.amazonaws.com/wp-content/uploads/2010/07/ICB-Final-Report.pdf

[325] Dodd-Frank Wall Street Reform and Consumer Protection Act, US Government (Washington D.C.) 21 July 2010. Date of Access: 1 April 2011. http://www.sec.gov/about/laws/wallstreetreform-cpa.pdf

On 17 February 2011, before the Senate Committee on Banking, Housing, and Urban Affairs, Federal Reserve Chairman Ben Bernanke stated: "We are committed to adopting the Basel III framework in a timely manner. In December 2010, we requested comment with the other U.S. banking agencies on proposed rules that would implement the 2009 trading book reforms, and we are already working to incorporate other aspects of the Basel III framework into U.S. regulations."[326]

On 17 March 2011, at the AIMA Policy and Regulatory Forum 2011 in Brussels, Belgium, Deputy Assistant Secretary for International Monetary and Financial Policy Mark Sobel remarked that "U.S. agencies are working on domestic rulemaking to incorporate Basel III into their rules and guidance, and [US Treasury Secretary Timothy Geithner] has repeatedly stated that the United States is committed to implementing Basel III requirements on the agreed schedules."[327]

On 10 May 2011, a Securities Exchange Commission (SEC) report on an internal discussion among SEC staffers pointed to a conflict with the Dodd-Frank reform and the Basel III liquidity reform. The American Dodd-Frank reform will ban the use of credit rating agencies, whereas Basel III does not address this issue. Basel III would also require small and large banks alike to eliminate hybrid bonds as a form of capital, whereas Dodd-Frank gives smaller banks more time to phase these out. The Congressional Research Service pointed these conflicts out in October 2010 but they have not been addressed yet by the Bank for International Settlements.[328] [329]

Thus the United States receives a score of 0 for declaring its commitment to enacting Basel III, and having enacted a financial sector reform bill that will reduce systemic risk, but which must be consolidated first with Basel III requirements.

Analyst: Tobias McVey

European Union: +1

The United Kingdom has fully complied with its commitment to implement the new bank capital and liquidity standards in accordance with the Basel III framework. The regulatory authorities have declared its support for the enactment of Basel III and have created a new financial regulator to detect systemic risks.

On 7 October 2010, the European Parliament adopted Capital Requirements Directive 4 (CRD 4), a comprehensive supervisory framework for the financial services industry on capital standards and measurements. The CRD 4 will require that the new capital and liquidity standards "be adopted with due regard to the economic cycle and ongoing economic recovery," and that the

326 Statement by Ben S. Bernanke, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Washington, D.C., February 17, 2011, US Senate (Washington D.C.) 17 February 2011. Date of Access: 1 April 2011. http://banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=f4634ef7-1297-44e8-95b6-608d259e1df7

327 Remarks by Deputy Assistant Secretary for International Monetary and Financial Policy Mark Sobel at the AIMA Policy and Regulatory Forum 2011, US Treasury (Washington, D.C.) 17 March 2011. Date of Access: 1 April 2011. http://www.treasury.gov/press-center/press-releases/Pages/tg1107.aspx

328 Unofficial Transcript: Roundtable on Money Market Funds and Systemic Risk, U.S. Securities and Exchange Commission. (Washington D.C.) 10 May 2011. Date of Access: 26 September 2011. http://www.sec.gov/spotlight/mmf-risk/mmf-risk-transcript-051011.htm

329 The Status of the Basel III Capital Adequacy Accord, Congressional Research Service. (Washington D.C.) 28 October 2010. Date of Access: 26 September 2011. http://www.fas.org/sgp/crs/misc/R41467.pdf

Parliament support "the initiative to increase the quality and level of capital in response to the crisis."[330]

On 16 December 2010, the European Commission legislation establishing the European Systemic Risk Board (ESRB) entered into force.[331] The ESRB is an independent and supervisory body charged with identifying systemic risks across the European financial system and responsible for the macroprudential oversight of the financial system within the EU.[332] The ESRB will be tasked with identifying and issuing recommendations for remedial action in response to the risks identified.[333]

On 15 July 2011, the European Banking Authority (EBA) conducted stress tests on 60 of the largest European banks among 21 member states of the European Union. The benchmark was set at 5% of Core Tier 1 capital. Of these, 8 were short of the 5-6% required for the Core Tier 1 capital ratio, with a shortfall of EUR2.5 billion. The assessment included adverse factor scenarios, such as banks' exposure to a liquidity shortfall and in particular exposure to sovereign debt. The EBA stated that it believed European banks "have learned from this exercise and the crisis to employ and maintain capital adequacy ratios."[334] The European Central Bank has since raised adequate capital to limit exposure to sovereign debt, and has made recommendations on how the 8 most exposed countries might seek to raise additional capital through the IMF and the European Union's Financial Stability Fund.[335] [336]

On 20 July 2011, the European Commission decided to adopt Basel III capital adequacy standards into law in a new European framework for a common bank capital adequacy standard, and grant national legislators further regulatory powers. The proposal is subject to passing in the European Parliament and among member states' national legislatures.[337] Due to different national legislators' standards and measurement methods, some member states will adopt additional

[330] European Parliament resolution of 7 October 2010 on Basel II and revision of the Capital Requirements Directives (CRD 4), European Parliament (Brussels) 7 October 2011. Date of Access: 30 March 2011. http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0354+0+DOC+XML+V0//EN&language=EN

[331] 16 December 2010: The legislation establishing the ESRB enters into force, European Systemic Risk Board (Frankfurt am Main) 16 December 2010. Date of Access: 30 March 2011. http://www.esrb.europa.eu/home/html/index.en.html

[332] 16 December 2010: The legislation establishing the ESRB enters into force, European Systemic Risk Board (Frankfurt am Main) 16 December 2010. Date of Access: 30 March 2011. http://www.esrb.europa.eu/home/html/index.en.html

[333] 16 December 2010: The legislation establishing the ESRB enters into force, European Systemic Risk Board (Frankfurt am Main) 16 December 2010. Date of Access: 30 March 2011. http://www.esrb.europa.eu/home/html/index.en.html

[334] 2011 EU-wide stress test results, European Banking Authority (London) 15 July 2011. Date of Access: 26 September 2011. http://www.eba.europa.eu/EU-wide-stress-testing/2011/2011-EU-wide-stress-test-results.aspx

[335] The European Banking Authority, press release 'Results of the 2011 EU-wide stress test', European Banking Authority (London) 15 July 2011. Date of Access: 26 September 2011. http://stress-test.eba.europa.eu/pdf/2011+EU-wide+stress+test+results+-+press+release+-+FINAL.pdf

[336] 2011 EU-Wide Stress Test: Objectives, Outcome and Recommendations, European Banking Authority (London) 16 July 2011. Date of Access: 26 September 2011. http://stress-test.eba.europa.eu/pdf/Presentation+to+Analysts.pdf

[337] Commission wants stronger and more responsible banks in Europe, European Commission (Brussels) 20 July 2011. Date of Access: 26 September 2011. http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/915&format=HTML&aged=0&language=EN&guiLanguage=en

measures designed for their own banking systems to accurately measure and prevent systemic risk in their significantly important financial institutions.[338]

Thus the European Union has received a score of +1 for meeting the Basel III requirements for 2011 and for committing itself to passing greater regulatory oversight upon member states' ratification of their new capital requirements standard.

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[338] Commission Sets Out Tougher Rules for Banks, European Voice (Wetstraat) 20 July 2011. Date of Access: 26 September 2011. http://www.europeanvoice.com/article/2011/july/commission-sets-out-tougher-rules-for-banks/71715.aspx