Finance: Basel III [147]

Commitment [#147]:

"We commit to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including: implementing Basel II, II.5 and III along the agreed timelines"

Cannes Summit Final Declaration

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			+1
Indonesia	-1		
Italy			+1
Japan			+1
Korea		0	
Mexico			+1
Russia		0	
Saudi Arabia			+1
South Africa			+1
Turkey	-1		
United Kingdom			+1
United States		0	
European Union			+1
Average Score		+0.55	

Background:

The Basel III framework on bank capital and liquidity standards is a continuation of Basel I, Basel II and Basel II.5 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 banking supervision in order to instil prudent practices in capital markets and foster a resilient international financial system (see Table 7).[450]

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

[450] 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.[451]

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."[452] The official Basel III framework was put forth by the BCBS to the international community on 26 July 2010.[453] 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."

On 8 January 2012, the Group of Governors and Heads of Supervision (GHOS) met to discuss the Basel Committee for Banking Supervision's "strategy for assessing implementation of the Basel regulatory framework".[454] The Basel Committee's member countries accepted to "undergo a detailed peer review of its implementation of all components of the Basel regulatory framework."[455] This peer review "will assess implementation of Basel II and Basel II.5 (ie the July 2009 enhancements on market risk and resecuritisations)" as well as of Basel III. The objectives of the Committee's reviews are to ensure that member states' domestic rules and regulations comply with the international minimum standards and "to ensure consistency in practice across banks and jurisdictions".[456] The first series of peer reviews will be conducted in the first quarter of 2012 and will focus on the European Union, Japan, and the United States.[457]

[451] 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
[452] 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
[453] 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
[454] Basel III liquidity standard and strategy for assessing implementation of standards endorsed by Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision (Basel) 8 January 2012. Date of Access: 27 January 2012. http://www.bis.org/press/p120108.htm
[455] Basel III liquidity standard and strategy for assessing implementation of standards endorsed by Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision (Basel) 8 January 2012. Date of Access: 27 January 2012. http://www.bis.org/press/p120108.htm
[456] Basel III liquidity standard and strategy for assessing implementation of standards endorsed by Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision (Basel) 8 January 2012. Date of Access: 27 January 2012. http://www.bis.org/press/p120108.htm
[457] Basel III liquidity standard and strategy for assessing implementation of standards endorsed by Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision (Basel) 8 January 2012. Date of Access: 27 January 2012. http://www.bis.org/press/p120108.htm

Table 7: Basel 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	1–2.5

Commitment features:
As Basel II and 2.5 are integral parts of Basel III and they were due to be implemented from end 2006 and end-2011 respectively, only measures concerning Basel III implementation are considered to be compliance with this commitment.

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 implementing measures consistent with the Basel III framework, initiating a public consultation process on Basel III guidelines, conducting regular stress tests to determine the health of major banks, or issuing a report assessing the regulators' progress in implementing Basel III regulations. Since the deadlines for implementation of Basel III are set beyond the upcoming Los Cabos 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 Seoul summit were counted towards the final score for the Seoul compliance cycle. Actions taken since the Cannes summit will be counted as delivery on the Cannes pledge over the current compliance cycle.

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.

Lead Analyst: Alexandre De Palma

Argentina: -1
Argentina is working towards the implementation of the Basel II standards, but has yet to prove its commitment to implement Basel II.5 and Basel III. It has thus failed to comply with its commitment to implement the financial sector reform agenda.

On 27 January 2012 the Central Bank of Argentina issued Comunicación "A"5272, which modifies and amends the regulations on minimum capital requirements for financial institutions and on minimum capital requirements for operational risks.[458]

On 14 February 2012 the Central Bank of Argentina issued Comunicación "A" 5282, which modifies and amends the regulations on minimum capital requirements for financial institutions and on consolidated supervision.[459]

A 27 January 2012 article by The Wall Street Journal reports on Argentina's increase in bank capital requirements to buffer against global financial turbulence. The minimum capital requirement will be at an average of 15 per cent of gross income over the last three years and the central bank announced an increase in the total capitalization requirements for the banking system by 1.2 per cent.[460] The Bank's main goal is to bring Argentina in line with the Basel II accords.[461]

In April 2012, the Basel Committee on Banking Supervision (BCBS) and the Bank of International Settlements (BIS) updated their Progress report on Basel III implementation. According to the report, Argentina received a classification 1 (of 4) for a lack of progress made towards the adoption of regulatory rules.[462] Thus far, the country has not published any draft law, regulation, or other official document towards implementing Basel III.[463]

Argentina has failed to take steps toward translating Basel III bank capital and liquidity standards into national laws and regulations. It has thus been awarded a score of -1.

Analyst: Taufiq Zaman

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 16 November 2011 the Australian Regulation Authority (APRA) released a consultation package for the implementation of Basel III liquidity reforms. This package is aimed at gaining input from stakeholders on the implementation of Basel III reforms. APRA intends to publish a

[458] Comunicación "A" 5272, Banco Central de la República Argentina (Buenos Aires), 17 January 2012. Date of Access: 20 March 2012. http://www.bcra.gov.ar/pdfs/comytexord/A5272.pdf

[459] Comunicación "A" 5282, Banco Central de la República Argentina (Buenos Aires), 14 February 2012. Date of Access: 20 March 2012. http://www.bcra.gov.ar/pdfs/comytexord/A5282.pdf

[460] Argentina Raises Bank Capital Requirements As Risk Buffer, The Wall Street Journal (**) 27 January 2012. Date of Access: 25 February 2012 http://online.wsj.com/article/BT-CO-20120127-711004.html.

[461] Argentina Raises Bank Capital Requirements As Risk Buffer, The Wall Street Journal (**) 27 January 2012. Date of Access: 25 February 2012 http://online.wsj.com/article/BT-CO-20120127-711004.html

[462] Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

[463] Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

final draft of *Prudential Standards of Liquidity* by mid-2012 and has currently circulated a draft.[464] "APRA proposes to apply the new global liquidity standards to the larger authorised deposit-taking institutions (ADIs). These new standards are the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR)."[465] Pursuant to this goal, APRA co-hosted a workshop with the Financial Services Institute of Australia (FINSIA) on 23 November 2011 to further collaborate on all issues related to Basel III implementation with stakeholders. At this conference it was also emphasized that the revised minimum requirements for Tier 1 common equity and the capital conservation buffer are targeted for an accelerated implementation of 1 January 2013 and 1 January 2016 respectively.[466]

On 30 March 2012, the Australian Prudential Regulation Authority (APRA) released a set of 5 draft prudential standards on capital requirements for public consultation.[467] APRA has expressed that it will consult end-2012 on reporting standards and consequential amendments to other prudential standards required to implement Basel III capital reforms. Final prudential standards and reporting forms are expected to come into effect by 1 January 2013.[468]

In April 2012, the BCBS and BIS updated their Progress report on Basel III implementation. According to the report, Australia received a classification 2 (of 4) for publishing draft regulations — such as public consultations or legislative deliberations — towards implementing Basel III.[469]

Hence Australia registers a score of +1 for stating its progress towards integration of Basel III, and for taking regulatory steps to implement the new standards outlined in the Basel III framework.

Analyst: Nick Shorten

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.

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464 Discussion Paper: Implementing Basel III Liquidity Reforms in Australia, Australian Prudential Regulation Authority (Sydney) 16 November 2011. Date of Access: 23 February 2012. http://www.apra.gov.au/MediaReleases/Pages/11_26.asp

465 Discussion Paper: Implementing Basel III Liquidity Reforms in Australia, Australian Prudential Regulation Authority (Sydney) 16 November 2011. Date of Access: 23 February 2012. http://www.apra.gov.au/MediaReleases/Pages/11_26.asp

466 Australian Prudential Regulatory Authority's Basel III Implementation Introductory Remarks by ARPA Chairman John F Laker at the ARPA Finsi Workshop (Sydney) 23 November 2011. Date of Access: 23 February 2012. http://www.apra.gov.au/Speeches/Documents/APRA-Finsia%20Basel%20III%20Implementation%2023%20November%202011.pdf

467 Implementing Basel III capital reforms in Australia, Australian Prudential Regulation Authority (Sydney) 30 March 2012. Date of Access: 18 May 2012. http://www.apra.gov.au/adi/PrudentialFramework/Documents/Basel_III_capital_response_to_submissions_30_March_2012.pdf

468 Implementing Basel III capital reforms in Australia, Australian Prudential Regulation Authority (Sydney) 30 March 2012. Date of Access: 18 May 2012. http://www.apra.gov.au/adi/PrudentialFramework/Documents/Basel_III_capital_response_to_submissions_30_March_2012.pdf

469 Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

On 9 November 2011, Luiz Awazu Pereira da Silva,Deputy Governor of Central Bank of Brazil, confirmed that Brazil's policy of a combination of Microprudential (MiP) and Macroprudential (MaP) frameworks has proven successful in establishing a stable financial system, through limiting the risk of wide financial distress, maintaining the provisions of financial services, and reducing costs for the real economy. Additionally, he stated his support for regulatory measures of the financial system promoted by the G20, the FSB, and the Basel III agenda.[470]

On 9 February 2012, Aldo Luiz Mendes, Deputy Governor for Monetary Policy at the Central Bank of Brazil, stated that Brazilian banks' capital adequacy ratio stood above the minimum capital adequacy ratio prescribed by Basel III. Mr. Mendes thus concluded that Brazil was prepared to deal with further deterioration in global economic conditions.[471]

On 17 February 2012, the Central Bank of Brazil began public consultation on a draft regulation to raise capital requirements for banks from the present 11 per cent to 13 per cent by 2017.[472]

On 1 March 2012, the Central Bank of Brazil announced new guidance for its core Tier 1 capital requirements, in accordance with the Basel III regulations. The bank said that it expected to reach a core Tier 1 capital level of 9 per cent by January 2013, later declining to 7.6 per cent in January 2014. Central Bank of Brazil also stated that it plans to begin the implementation of the Basel III regulations in January 2013.[473]

In April 2012, the BCBG and BIS updated their Progress report on Basel III implementation. According to the report, Brazil received a classification 2 (of 4) for publishing draft regulations — such as public consultations or legislative deliberations — towards implementing Basel III.[474]

Brazil has taken regulatory steps and started defining a timeline for the implementation of Basel III liquidity and capital standards. Therefore, it has been awarded a score of +1.

Analyst: Alexandre de Palma, Hermonie Xie

[470]Session 10: From Weathering the Crisis to Re-Building Prosperity: New Policy Perspectives The Role of Financial Regulation – Presentation by Luiz Awazu Pereira da Silva, Banco Central do Brasil (Brasilia) 9 November 2011. Date of Access: 2 March 2012. http://www.bcb.gov.br/pec/appron/apres/Luiz_Awazu_Pereira_Apresentacao_BNDES_09-11-2011.pdf.

[471] Brazil Economic and Financial Fundamentals: A General View and Perspectives – Presentation by Aldo Luiz Mendes, Banco Central do Brasil (Brasilia) 9 February 2012. Date of Access: 2 March 2012. http://www.bcb.gov.br/pec/appron/apres/BEST_Aldo_Mendes_09022012.pdf.

[472]Brazil plans to raise bank capital rules in 2017, Reuters (New York) 17 February 2012. Date of Access: 18 May 2012. http://www.reuters.com/article/2012/02/17/brazil-banks-capital-idUSL2E8DHCTM20120217

[473]Banco do Brasil Unviels Guidance For Its Tier I Capital, The Wall Street Journal (New York) 1 March 2012. Date of Access: 9 March 2012. http://online.wsj.com/article/BT-CO-20120301-709871.html.

[474]Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

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.

Since the Cannes Summit, the Office of the Superintendent of Financial Institutions (OSFI) has announced the set-up of a framework for the eventual implementation of Basel III capital requirements by 2013, in accordance to the BCSC timetable. OSFI expects that the six major banks in Canada will meet the new common equity Tier 1 risk ratio by January of 2013.[475]

According to the 30 January 2012 FSB Peer Review of Canada, Canadian authorities "are also working on a number of other regulatory initiatives, notably Basel III implementation.[476]Indeed, the Bank of Canada has commenced discussions on the implementation of the countercyclical capital buffer.[477] In December 2012, Bank of Canada published a working paper examining the extent to which bank leverage regulation should be countercyclical.[478]

On 21 December 2011, OSFI began work on its announced framework by introducing new editions of Capital Adequacy Requirements (CAR) A and A-1 Guidelines. The revised A and A-1 guidelines are to incorporate the changes due to Basel II by Basel 2.5[479]. With completion of Basel 2.5 regulations, OSFI expects Basel III regulation implementation to advance without any difficulty.

On 28 February 2012, OSFI also introduced new liquidity guidelines for banks in the form of Final Revised Guideline B-6 Liquidity Principles, which is a part of Basel III. This is a revision to the previous Liquidity Guidelines that were published as early as December 1995.[480]

Unlike OSFI's revisions of Capital Requirements as addressed by Basel III, OSFI does not plan to implement the liquidity coverage ratio or net stable funding ratio prior to the BCBS deadlines. In the period in between, OSFI expects to continue the use of its own domestic cash flow measures by major currency and will consult with small banks and foreign bank branches in Canada to establish the application of new liquidity measures that are appropriate with the focused scope of their operations.[481]

[475] Financial Stability Board: Peer Review of Canada, Review Report (Ottawa), 30 January 2012. Date of Access: 2 March 2012 http://www.financialstabilityboard.org/publications/r_120130.pdf

[476] Peer Review of Canada, Financial Stability Board (Basel) 30 January 2012. Date of Access: 1 March 2012. http://www.financialstabilityboard.org/publications/r_120130.pdf.

[477] Peer Review of Canada, Financial Stability Board (Basel) 30 January 2012. Date of Access: 1 March 2012. http://www.financialstabilityboard.org/publications/r_120130.pdf.

[478] Working Paper 2011-32: Bank Leverage Regulation and Macroeconomic Dynamics, Bank of Canada (Ottawa) December 2011. Date of Access: 9 March 2012. http://www.bankofcanada.ca/wp-content/uploads/2011/12/wp2011-32.pdf.

[479] A and A-1 Capital Adequacy Requirements (CAR) (Ottawa), 21 December 2011. Date of Access: 2 March 2012 http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/guidelines/CAR_GIAS_12_e.pdf

[480] Final Revised Guideline B-6 – Liquidity Principles (Ottawa), 28 February 2012. Date of Access: 2 March 2012 http://www.osfibsif.gc.ca/app/DocRepository/1/eng/guidelines/prudential/guidelines/b6_let_e.pdf

[481] Financial Stability Board: Peer Review of Canada, Review Report (Ottawa), 30 January 2012. Date of Access: 2 March 2012 http://www.financialstabilityboard.org/publications/r_120130.pdf

In March 2012, the OSFI issued a draft regulation for definition of capital and counterparty credit risk to banks.[482]

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, and for taking action to translate parts of the Basel III standards into national regulations.

Analyst: Hyrar Tumasyan, Alexandre de Palma

China: +1

China continues its progress towards the implementation of the Basel III standards and has thus complied with its commitment.

On 6 March 2012, China's Banking Regulatory Commission (CBRC) announced that it intended to implement "more stringent" capital adequacy ratios in the second half of 2012. Presently, CBRC is consulting with industry stakeholders as well as seeking approval from the State Council on the Basel III rules.[483]

In April 2012, the BCBS and BIS updated their Progress report on Basel III implementation. According to the report, China received a classification 2 (of 4) for publishing draft regulations — such as public consultations or legislative deliberations — towards implementing Basel III.[484] The BCBG and BIS expect the new legal and regulatory frameworks (which will apply to all banking institutions) to be finalized and enforced by Q3 2012.[485]

China is pursuing its work towards the integration of Basel III standards in national regulations and has thus been awarded a score of +1.

Analyst: Alexandre de Palma

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.

As a member country of the European Union, France is subject to the Union's regulations and directives.

On 30 November 2011 the European Banking Authority published "consultation papers on guidelines to the Incremental Default and Migration Risk Charge (IRC) and on guidelines to

[482]Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

[483] China Rules, Print-Room Tips, Credit Suisse: Compliance, Bloomberg L.P. (New York) 6 March 2012. Date of Access: 9 March 2012. http://www.bloomberg.com/news/2012-03-06/china-rules-print-room-tips-credit-suisse-buy-back-compliance.html.

[484]Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

[485]Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

Stressed VaR" (Value at Risk).[486][487][488] Both proposals are intended to become amendments to the CRD III (Capital Requirements Directive) and to enter into force on 31 December 2011.

On 6 December 2011, the inaugural meeting of the FSB Regional Consultative Group for Europe took place in Luxenbourg. Discussions touched upon regulatory reforms for systemically important banks: more specifically, Basel III capital and liquidity standards, effective resolution regimes, shadow banking and cooperation between authorities in home and host countries.[489]

On 8 December 2011 the European Banking Authority published a formal Recommendation stating that "national supervisory authorities should require the banks included in the sample to strengthen their capital positions by building up an exceptional and temporary capital buffer against sovereign debt exposures to reflect market prices as at the end of September. In addition, banks will be required to establish an exceptional and temporary buffer such that the Core Tier 1 capital ratio reaches a level of 9per cent by the end of June 2012."[490]

On 19 December 2011 the European Banking Authority published the compliance table regarding the 27 September 2011 EBA Guidelines on Internal Governance that "aim at enhancing and consolidating supervisory expectations and to ultimately improve the sound implementation of internal governance arrangements."[491]

On 20 December 2011 the European Banking Authority issued "a consultation paper on draft Implementing Technical Standards (ITS) on supervisory reporting requirements for institutions". The draft ITS puts forwards asset of rules pertaining to the Capital Requirements Regulation (CRR), a subset of the CRD IV (Capital Requirements Directive) proposal being discussed by

[486] EBA consultation papers on guidelines to the Incremental Default and Migration Risk Charge (IRC) and on guidelines to Stressed VaR, European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-consultation-papers-on-guidelines-to-the-Incre.aspx

[487] EBA Consultation Paper on the Draft Guidelines on the Incremental Default and Migration Risk Charge (IRC) (CP49), European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP49/EBA-BS-2011-165-(CP-on-GL-IRC)-FINAL.pdf

[488] EBA Consultation Paper on the Draft Guidelines on Stressed Value at Risk (Stressed VaR) (CP48), European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP48/EBA-BS-2011-166r-(CP48-on-GL-Stressed-VaR)-FINAL.pdf

[489] Press Release: Meeting of the Financial Stability Board Regional Consultative Group for Europe, Financial Stability Board (Basel) 6 December 2011. Date of Access: 8 March 2012. http://www.financialstabilityboard.org/press/pr_111206.pdf

[490] The EBA publishes Recommendation and final results of bank recapitalisation plan as part of co-ordinated measures to restore confidence in the banking sector, European Banking Authority (London) 8 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/The-EBA-publishes-Recommendation-and-final-results.aspx

[491] The EBA has published compliance table regarding Guidelines on Internal Governance (GL44), European Banking Authority (London) 19 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-published-compliance-table-regarding-Guideline.aspx

European Union institutions. "The EBA intends to finalise the draft ITS and submit it to the Commission by 30 June 2012."[492]

On 25 January 2012 the European Central Bank expressed its opinion "on [1] a proposal for a Directive on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and [2] a proposal for a Regulation on prudential requirements for credit institutions and investment firms".[493] The ECB supports the proposed directive as well as the proposed regulation, and puts forwards recommendations pertaining to macro-prudential supervision, own funds, capital buffers, liquidity, leverage, supervisory reporting, the enhancement of information-sharing arrangements and other issues. The ECB further proposes amendments to the proposed directive and to the proposed regulation.[494]

In February 2012, Banque de France released a report on France's progress on a series of domestic reforms undertaken to comply with the principles adopted by the G20 in 2009 regarding financial stability and supervision of financial markets. [495] Thus, as of 31 December 2011, the regulations for increased capital requirements to trading activity and operations came into force.

On 13 February 2012 the European Banking Authority published a Consultation Paper on draft Implementing Technical Standards (ITS) on reporting of large exposures (CP51). The draft ITS is "requested by Article 383 of the Capital Requirements Regulation (CRR) and represents an addendum to the [20 December 2011] ITS proposal on supervisory reporting requirements".[496]

On 2 May 2012 the Council of the European Union "examined proposals to amend the EU's rules on capital requirements for banks and investment firms [...] with a view to starting the negotiations with the European Parliament aimed at adoption of texts at first reading."[497] On 15 May 2012 the Council reached an agreement "on a general approach on two proposals, [...] [which] set out to amend and replace the existing capital requirement directives and divide them

[492] EBA Consultation paper on draft ITS on supervisory reporting requirements, European Banking Authority (London) 20 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-consultation-paper-on-draft-ITS-on-supervisory.aspx

[493] Opinion of the European Central Bank (CON/2012/5), European Central Bank (Frankfurt), 25 January 2012. Date of Access: 17 March 2012. http://www.ecb.int/ecb/legal/pdf/en_con_2011_5_f.pdf

[494] Opinion of the European Central Bank (CON/2012/5), European Central Bank (Frankfurt), 25 January 2012. Date of Access: 17 March 2012. http://www.ecb.int/ecb/legal/pdf/en_con_2011_5_f.pdf

[495] Réforme du système financier en Europe et en France, Fédération Bancaire Française (Paris) February 2012. Date of Access: 8 March 2012. http://www.fbf.fr/fr/files/8HTAX9/Fiche_reforme_systeme_financier_fevrier2012.pdf.

[496] EBA publishes a consultation paper on draft ITS on reporting of large exposures, European Banking Authority (London), 13 February 2012. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2012/EBA-publishes-a-consultation-paper-on-draft-ITS-on.aspx

[497] Press Release 9359/12, 3163rd Council meeting, Economic and Financial Affairs, Council of the European Union (Brussels), 2 May 2012. Date of Access: 18 May 2012. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/130020.pdf

into two new legislative instruments: a regulation establishing prudential requirements that institutions need to respect and a directive governing access to deposit-taking activities."[498]

France, as a member of the European Union, has taken regulatory steps towards the implementation of Basel III standards and has therefore been awarded a score of +1.

Analyst: Alexandre de Palma, Biljana Zorbic

Germany: +1

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

As a member country of the European Union, Germany is subject to the Union's regulations and directives.

On 30 November 2011 the European Banking Authority published "consultation papers on guidelines to the Incremental Default and Migration Risk Charge (IRC) and on guidelines to Stressed VaR" (Value at Risk).[499][500][501] Both proposals are intended to become amendments to the CRD III (Capital Requirements Directive) and to enter into force on 31 December 2011.

On 8 December 2011 the European Banking Authority published a formal Recommendation stating that "national supervisory authorities should require the banks included in the sample to strengthen their capital positions by building up an exceptional and temporary capital buffer against sovereign debt exposures to reflect market prices as at the end of September. In addition, banks will be required to establish an exceptional and temporary buffer such that the Core Tier 1 capital ratio reaches a level of 9per cent by the end of June 2012."[502]

On 19 December 2011 the European Banking Authority published the compliance table regarding the 27 September 2011 EBA Guidelines on Internal Governance that "aim at enhancing and

[498] Press Release 9733/12, 3167th Council meeting, Economic and Financial Affairs, Council of the European Union (Brussels), 15 May 2012. Date of Access: 18 May 2012. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/130268.pdf

[499] EBA consultation papers on guidelines to the Incremental Default and Migration Risk Charge (IRC) and on guidelines to Stressed VaR, European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-consultation-papers-on-guidelines-to-the-Incre.aspx

[500] EBA Consultation Paper on the Draft Guidelines on the Incremental Default and Migration Risk Charge (IRC) (CP49), European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP49/EBA-BS-2011-165-(CP-on-GL-IRC)-FINAL.pdf

[501] EBA Consultation Paper on the Draft Guidelines on Stressed Value at Risk (Stressed VaR) (CP48), European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP48/EBA-BS-2011-166r-(CP48-on-GL-Stressed-VaR)-FINAL.pdf

[502] The EBA publishes Recommendation and final results of bank recapitalisation plan as part of co-ordinated measures to restore confidence in the banking sector, European Banking Authority (London) 8 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/The-EBA-publishes-Recommendation-and-final-results.aspx

consolidating supervisory expectations and to ultimately improve the sound implementation of internal governance arrangements."[503]

On 20 December 2011 the European Banking Authority issued "a consultation paper on draft Implementing Technical Standards (ITS) on supervisory reporting requirements for institutions". The draft ITS puts forwards asset of rules pertaining to the Capital Requirements Regulation (CRR), a subset of the CRD IV (Capital Requirements Directive) proposal being discussed by European Union institutions. "The EBA intends to finalise the draft ITS and submit it to the Commission by 30 June 2012."[504]

On 23 January 2012, German Finance Minister Wolfgang Schaeuble said that Germany was actively seeking to implement Basel III requirements on bank capitalization, thus rejecting media rumours that Germany was to seek the relaxation of the regulation.[505]

On 25 January 2012 the European Central Bank expressed its opinion "on [1] a proposal for a Directive on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and [2] a proposal for a Regulation on prudential requirements for credit institutions and investment firms".[506] The ECB supports the proposed directive as well as the proposed regulation, and puts forwards recommendations pertaining to macro-prudential supervision, own funds, capital buffers, liquidity, leverage, supervisory reporting, the enhancement of information-sharing arrangements and other issues. The ECB further proposes amendments to the proposed directive and to the proposed regulation.[507]

On 13 February 2012 the European Banking Authority published a Consultation Paper on draft Implementing Technical Standards (ITS) on reporting of large exposures (CP51). The draft ITS is "requested by Article 383 of the Capital Requirements Regulation (CRR) and represents an addendum to the [20 December 2011] ITS proposal on supervisory reporting requirements".[508]

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[503] The EBA has published compliance table regarding Guidelines on Internal Governance (GL44), European Banking Authority (London) 19 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-published-compliance-table-regarding-Guideline.aspx

[504] EBA Consultation paper on draft ITS on supervisory reporting requirements, European Banking Authority (London) 20 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-consultation-paper-on-draft-ITS-on-supervisory.aspx

[505] France, Germany to implement Basel III rules: Schaeuble, Reuters (Paris) 23 January 2012. Date of Access: 15 March 2012. http://www.reuters.com/article/2012/01/23/eurozone-schaeuble-idUSL5E8CN15X20120123.

[506] Opinion of the European Central Bank (CON/2012/5), European Central Bank (Frankfurt), 25 January 2012. Date of Access: 17 March 2012. http://www.ecb.int/ecb/legal/pdf/en_con_2011_5_f.pdf

[507] Opinion of the European Central Bank (CON/2012/5), European Central Bank (Frankfurt), 25 January 2012. Date of Access: 17 March 2012. http://www.ecb.int/ecb/legal/pdf/en_con_2011_5_f.pdf

[508] EBA publishes a consultation paper on draft ITS on reporting of large exposures, European Banking Authority (London), 13 February 2012. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2012/EBA-publishes-a-consultation-paper-on-draft-ITS-on.aspx

On 2 May 2012 the Council of the European Union "examined proposals to amend the EU's rules on capital requirements for banks and investment firms [...] with a view to starting the negotiations with the European Parliament aimed at adoption of texts at first reading."[509] On 15 May 2012 the Council reached an agreement "on a general approach on two proposals, [...] [which] set out to amend and replace the existing capital requirement directives and divide them into two new legislative instruments: a regulation establishing prudential requirements that institutions need to respect and a directive governing access to deposit-taking activities."[510]

Germany, as a member of the European Union, has taken regulatory steps towards the implementation of Basel III standards and has therefore been awarded a score of +1.

Analyst: Alexandre de Palma, Hyrar Tumasyan

India: +1

India 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 30 December 2011 the Reserve Bank of India released draft guidelines on Basel III Capital Regulations. The draft guidelines set out proposals for minimum capital requirements, a capital conservation buffer as well as a new leverage ratio. The capital requirements would phase in starting on 1 January 2012 and should be fully implemented by 31 March 2017.[511]The Guidelines were compiled in response to the BCBS's reform package "Basel III: A global regulatory framework for more resilient banks and banking systems."[512] The Guidelines regulated: (1) Tier 1 capital must be at least 7 per cent of risk-weighted assets (RWAs); (2) total capital must be at least 9 per cent of RWAs; (3) the capital conservation buffer in the form of Common Equity must remain at 2.5 per cent of RWAs; (4) for banks to compute a credit value adjustments (CVA) risk capital charge for their OTC derivatives sales; (5) for banks to operate at a minimum Tier 1 leverage ratio of 5.5 per cent. The Guidelines also has established a timeline for the implementation of the new regulations with most regulations effective of 1 January 2013.[513]

On 21 February 2011 the Reserve Bank of India released draft guidelines on liquidity risk management and Basel III framework on liquidity standards. "The Basel III rules text on liquidity prescribing two minimum global regulatory standards viz. liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) for liquidity risk and a set of five monitoring tools. The Reserve Bank, being a member of the BCBS, is fully committed to the objective of the Basel III reform package and, therefore, intends to implement these proposals for banks operating in India.

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[509] Press Release 9359/12, 3163rd Council meeting, Economic and Financial Affairs, Council of the European Union (Brussels), 2 May 2012. Date of Access: 18 May 2012. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/130020.pdf

[510] Press Release 9733/12, 3167th Council meeting, Economic and Financial Affairs, Council of the European Union (Brussels), 15 May 2012. Date of Access: 18 May 2012. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/130268.pdf

[511] RBI Releases Draft Guidelines on Basel III Capital Regulations, Reserve Bank of India (New Delhi), 30 December 2011. Date of Access:19 March 2012. http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25697

[512] RBI Releases Draft Guidelines on Basel III Capital Regulations, Reserve Bank of India (New Delhi), 30 December 2011. Date of Access:19 March 2012. http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25697

[513]RBI Releases Draft Guidelines on Basel III Capital Regulations, Reserve Bank of India (New Delhi) 30 December 2011. Date of Access: 15 March 2012. http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25697.

Accordingly, draft guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards have been prepared." Banks are asked to submit the liquidity returns under the Basel III regulation to the Reserve Bank by June 2012.[514]

On 3 March 2012 Shri B. Mahapatra, Executive Director of the Reserve Bank of India, recalled that "The Reserve Bank of India has issued the draft guidelines on capital and liquidity rules of Basel III on 30 December 2011 and 21 February 2012, respectively. The Reserve Bank's approach has been to adopt Basel III capital and liquidity guidelines with more conservatism and at a quicker pace."[515]

On 2 May 2012 the Reserve Bank of India published its Guidelines on Implementation of Basel III Capital Regulations in India. The document states that "as a matter of prudence, it has been decided that scheduled commercial banks (excluding LABs and RRBs) operating in India shall maintain a minimum total capital (MTC) of 9 per cent of total risk weighted assets (RWAs) as against a MTC of 8 per cent of RWAs as prescribed in Basel III."[516] Furthermore, RBI sets minimum Common Equity Tier 1 capital requirements at "5.5 per cent of riskweighted assets (RWAs)"[517] versus the 4.5 per cent recommended by the Basel Committee on Banking Supervision. Moreover, RBI announces that the "minimum Common Equity, Tier 1 and Total Capital requirements will be phased-in between January 1, 2013 and January 1, 2015" while "Capital ratios and deductions from Common Equity will be fully phased-in and implemented as on March 31, 2018."[518]

India has taken regulatory steps towards the implementation of Basel III standards and has thus been awarded a score of +1.

Analyst: Alexandre de Palma

Indonesia: -1

Indonesia has failed to take any steps towards the implementation of the Basel III standards since the Cannes summit.

[514] RBI Releases Draft Guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards, reserve Bank of India (New Delhi), 21 February 2011. Date of Access: 19 March 2012.http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=25997

[515] Implications of Basel III for Capital, Liquidity and Profitability of Banks, Reserve Bank of India (New Delhi), 3 March 2012. Date of Access: 19 March 2012. http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=673

[516] Guidelines of Implementation of Basel III Capital Regulations in India, Reserve Bank of India (New Delhi), 2 May 2012. Date of Access: 17 May 2012. http://rbidocs.rbi.org.in/rdocs/content/pdfs/FBSEIII020512_I.pdf

[517] Guidelines of Implementation of Basel III Capital Regulations in India, Reserve Bank of India (New Delhi), 2 May 2012. Date of Access: 17 May 2012. http://rbidocs.rbi.org.in/rdocs/content/pdfs/FBSEIII020512_I.pdf

[518] Guidelines of Implementation of Basel III Capital Regulations in India, Reserve Bank of India (New Delhi), 2 May 2012. Date of Access: 17 May 2012. http://rbidocs.rbi.org.in/rdocs/content/pdfs/FBSEIII020512_I.pdf

On 21 November 2011, representatives from the Indonesian authorities attended the inaugural meeting of the FSB Regional Consultative Group for Asia, where topics of discussion included financial regulatory reforms for SIFIs and the Basel III capital framework.[519]

In April 2012, the BCBS and the BIS updated their Progress report on Basel III implementation. According to the report, Indonesia received a classification 1 (of 4) for a lack of progress made towards the adoption of regulatory rules. Thus far, the country has not published any draft law, regulation, or other official document towards implementing Basel III.[520] However, the BCBS and BIS expect a draft regulation to be released for consultation in Q2 2012.[521]

Indonesia has not complied with its commitment to translate the Basel III framework in national regulations and has thus been awarded a score of -1.

Analyst: Alexandre de Palma, Hermonie Xie

Italy: +1

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

As a member country of the European Union, Italy is subject to the Union's regulations and directives.

On 30 November 2011 the European Banking Authority published "consultation papers on guidelines to the Incremental Default and Migration Risk Charge (IRC) and on guidelines to Stressed VaR" (Value at Risk).[522][523][524] Both proposals are intended to become amendments to the CRD III (Capital Requirements Directive) and to enter into force on 31 December 2011.

[519] Press Release: FSB Regional Consultative Group for Asia Inaugural Meeting, Financial Stability Board (Basel) 21 November 2011. Date of Access: 2 March 2012. http://www.financialstabilityboard.org/press/pre_111121.pdf.

[520] Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

[521] Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

[522] EBA consultation papers on guidelines to the Incremental Default and Migration Risk Charge (IRC) and on guidelines to Stressed VaR, European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-consultation-papers-on-guidelines-to-the-Incre.aspx

[523] EBA Consultation Paper on the Draft Guidelines on the Incremental Default and Migration Risk Charge (IRC) (CP49), European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP49/EBA-BS-2011-165-(CP-on-GL-IRC)-FINAL.pdf

[524] EBA Consultation Paper on the Draft Guidelines on Stressed Value at Risk (Stressed VaR) (CP48), European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP48/EBA-BS-2011-166r-(CP48-on-GL-Stressed-VaR)-FINAL.pdf

On 6 December 2011, the Italian financial authorities attended the inaugural FSB Regional Consultative Group Meeting for Europe, where topics of discussion included: regulatory financial reforms, a framework for dealing with SIFIs, improved cooperation between authorities, and the increased Basel III capital and liquidity requirements for banks.[525]

On 8 December 2011 the European Banking Authority published a formal Recommendation stating that "national supervisory authorities should require the banks included in the sample to strengthen their capital positions by building up an exceptional and temporary capital buffer against sovereign debt exposures to reflect market prices as at the end of September. In addition, banks will be required to establish an exceptional and temporary buffer such that the Core Tier 1 capital ratio reaches a level of 9 per cent by the end of June 2012."[526]

On 8 December 2011, the Bank of Italy (BoI) issued a press release reaffirming its commitment to the recapitalization of banks for increased stability, and requiring a plan of action to be submitted by Italian banks by 20 January 2012. The Italian banks are expected to use private sources of funding to meet the targets, although the BoI would consider selling selected assets after consultation with the EBA to help achieve targets.[527]

On 19 December 2011 the European Banking Authority published the compliance table regarding the 27 September 2011 EBA Guidelines on Internal Governance that "aim at enhancing and consolidating supervisory expectations and to ultimately improve the sound implementation of internal governance arrangements."[528]

On 20 December 2011 the European Banking Authority issued "a consultation paper on draft Implementing Technical Standards (ITS) on supervisory reporting requirements for institutions". The draft ITS puts forwards asset of rules pertaining to the Capital Requirements Regulation (CRR), a subset of the CRD IV (Capital Requirements Directive) proposal being discussed by European Union institutions. "The EBA intends to finalise the draft ITS and submit it to the Commission by 30 June 2012."[529]

On 25 January 2012 the European Central Bank expressed its opinion "on [1] a proposal for a Directive on the access to the activity of credit institutions and the prudential supervision of credit

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[525] Press Release: FSB Regional Consultative Group for Europe holds its first meeting, Financial Stability Board (Basel) 6 December 2011. Date of Access: 1 March 2012. http://www.financialstabilityboard.org/press/pr_111206.pdf.
[526] The EBA publishes Recommendation and final results of bank recapitalisation plan as part of co-ordinated measures to restore confidence in the banking sector, European Banking Authority (London) 8 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/The-EBA-publishes-Recommendation-and-final-results.aspx
[527] Press Release: EBA Recommendation about bank capital, Banca d'Italia (Rome) 8 December 2012. Date of Access: 1 March, 2012. http://www.bancaditalia.it/media/comsta/2011/eba_racc_2011/CS_eba_EN.pdf.
[528] The EBA has published compliance table regarding Guidelines on Internal Governance (GL44), European Banking Authority (London) 19 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-published-compliance-table-regarding-Guideline.aspx
[529] EBA Consultation paper on draft ITS on supervisory reporting requirements, European Banking Authority (London) 20 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-consultation-paper-on-draft-ITS-on-supervisory.aspx

institutions and investment firms and [2] a proposal for a Regulation on prudential requirements for credit institutions and investment firms". The ECB supports the proposed directive as well as the proposed regulation, and puts forwards recommendations pertaining to macro-prudential supervision, own funds, capital buffers, liquidity, leverage, supervisory reporting, the enhancement of information-sharing arrangements and other issues. The ECB further proposes amendments to the proposed directive and to the proposed regulation.[530]

On 13 February 2012 the European Banking Authority published a Consultation Paper on draft Implementing Technical Standards (ITS) on reporting of large exposures (CP51). The draft ITS is "requested by Article 383 of the Capital Requirements Regulation (CRR) and represents an addendum to the [20 December 2011] ITS proposal on supervisory reporting requirements".[531]

On 18 February 2012 Ignazio Visco, Governor of the Bank of Italy issued a speech urging Italy to rapidly implement and extend financial reforms[532]. Mr. Visco described the Italian banking system as "solid", but hit hard by sovereign debt strains, as reflected by the cut to Italian credit ratings by Moody's a few days prior.[533] Despite Moody's citing "uncertainty over the Euro areas prospects for institutional reform," Mr. Visco stressed Italy's proactive measures towards financial reform, including planning additional capital requirements for SIFIs in accordance with Basel III, expanding the range of assets available to banks as collateral for refinancing operations, and making "clearly defined" eligibility criteria for future collateral selection. Mr. Visco concluded by stating that it was "important that the banks prepare for the introduction of Basel III," and praising Italian banks for complying with the increased capital requirements, "even in difficult times."[534]

On 2 May 2012 the Council of the European Union "examined proposals to amend the EU's rules on capital requirements for banks and investment firms [...] with a view to starting the negotiations with the European Parliament aimed at adoption of texts at first reading."[535] On 15 May 2012 the Council reached an agreement "on a general approach on two proposals, [...] [which] set out to amend and replace the existing capital requirement directives and divide them

[530] Opinion of the European Central Bank (CON/2012/5), European Central Bank (Frankfurt), 25 January 2012. Date of Access: 17 March 2012. http://www.ecb.int/ecb/legal/pdf/en_con_2011_5_f.pdf
[531] EBA publishes a consultation paper on draft ITS on reporting of large exposures, European Banking Authority (London), 13 February 2012. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2012/EBA-publishes-a-consultation-paper-on-draft-ITS-on.aspx
[532] Italy must rapidly implement, extend reforms: central bank, Reuters (New York) 18 February 2012. Date of Access: 1 March 2012. http://www.reuters.com/article/2012/02/18/us-italy-economy-cenbank-idUSTRE81H0CU20120218.
[533] Moody's cuts Italy, Spain and Portugal's credit ratings, BBC News (London) 14 February 2012. Date of Access: 1 March 2012. http://www.bbc.co.uk/news/business-17023792.
[534] Address by Governor Ignazio Visco at the 18th ASSION FOREX Conference, Banca d'Italia (Rome) 18 February 2012. Date of Access: 1 March 2012. http://www.bancaditalia.it/interventi/integov/2012/forex-18022012/en_Visco_180212.pdf.
[535] Press Release 9359/12, 3163rd Council meeting, Economic and Financial Affairs, Council of the European Union (Brussels), 2 May 2012. Date of Access: 18 May 2012. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/130020.pdf

into two new legislative instruments: a regulation establishing prudential requirements that institutions need to respect and a directive governing access to deposit-taking activities."[536]

Italy, as a member of the European Union, has taken regulatory steps towards the implementation of Basel III Standards and has thus been awarded a score of +1.

Analyst: Alexandre de Palma

Japan: +1

Japan has fully complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel II.5 framework.

On 22 November 2012 the Financial Services Agency (FSA) of Japan published the results of its public consultation on the "Draft Partial Revisions of Public Notices on Capital Adequacy Ratios of Financial Instruments Business Operators, etc." The draft revisions intend to make Japanese regulations compliant with Basel II.5 by "(1) [raising] the risk weights of securitized products and re-securitized products; (2) [introducing] monitoring requirements concerning external ratings use; (3) [capturing] trading account related stress VaR, additional risks (credit risks), etc. and (4) [introducing] expected exposure method", among other measures. The FSA further indicated, "this revised public notice shall apply starting on March 31, 2012".[537]

On 30 March 2012, the FSA published an amendment to administrative notice on capital adequacy rules for internationally active banks based on Basel III. The new rules will be implemented on 31 March 2013.[538]

Japan has taken regulatory steps towards its financial sectors compliance with the Basel II.5 standards and has thus been awarded a score of +1.

Analyst: Alexandre de Palma, Taufiq Zaman

Korea: 0

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

On 24 February 2012, the Financial Supervisory Service (FSS) announced that BIS capital adequacy ratios and tier 1 capital ratio under Basel II was at 13.94 per cent and 11.59 per cent on average across domestic banks at the end of December 2011. These ratios decreased 0.61 per cent and 0.53 per cent from the previous year due to a decrease in the amount of hybrid securities and subordinated debt held as capital by Korean domestic bank.[539]

[536] Press Release 9733/12, 3167th Council meeting, Economic and Financial Affairs, Council of the European Union (Brussels), 15 May 2012. Date of Access: 18 May 2012. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/130268.pdf

[537] FSA Newsletter No.102 2012, Financial Services Agency (Tokyo), 2 February 2012. Date of Access: 18 March 2012. http://www.fsa.go.jp/en/newsletter/2012/01a.html#tp03

[538] Publication of amendment to administrative notice on capital adequacy rules for internationally active banks based on Basel III, Financial Services Agency (Tokyo), 30 March 2012. Date of Access: 17 May 2012. http://www.fsa.go.jp/en/news/2012/20120330-1.html

[539] Domestic Banks' BIS Capital Ratios as of end-December 2011 (preliminary), Financial Supervisory Service (Seoul) 24 February 2012. Date of Access: 23 February 2012. http://english.fss.or.kr/fss/en/media/release/view.jsp?bbsid=1289277491315&category=null&idx=1330071715487&num=633&color=green

In March 12 2012 press release pertaining to the consolidated BIS capital ratios of bank holding companies in Korea, the Financial Supervisory Service (FSS) stated that it "will encourage bank holding companies to strengthen capital adequacy management against a probability of global economic recession and upcoming implementation of Basel III."[540]

In April 2012, the BCBS and the BIS updated their Progress report on Basel III implementation. According to the report, Korea received a classification 1 (of 4) for a lack of progress made towards the adoption of regulatory rules. The BCBS and BIS expect draft regulation to be published by the first half of 2012.[541]

Korea has declared its intent to implement the new bank capital and liquidity standards set in the Basel III framework. Thus, Korea has been awarded a score of 0.

Analyst: Nick Shorten

Mexico: +1

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

On 12 January 2012, Guillermo Babatz, the President of the National Securities and Banking Commission, announced that banks of Mexico are introduced to a new regulation on publicly traded shares. "Banks that issue subordinated debt will need to make it convertible to publicly traded shares if they want it to count toward their capital requirements", explained Mr. Babatz.[542]Mr. Babatz also added that Mexico expects to adopt the new regulations by mid-2012, thus becoming the first G20 member country to adhere to the Basel III accord on capital requirements.

On 31 May 2012, Mexican authorities published draft rules aimed at incorporating Basel III provisions into national legislation.[543]

Mexico has taken measures to apply the standards set in the Basel III framework and has thus been awarded a score of +1.

Analyst: Alexandre de Palma

Russia: 0

Russia has partially complied with its commitment to implement the financial sector reform agenda agreed up through Seoul, including Basel II, II.5 and III.

[540]Bank Holding Companies' Capital Adequacy as of end-December 2011, Financial Supervisory Service (Seoul), 12 March 2012. Date of Access: 18 March 2012. http://english.fss.or.kr/fss/en/media/release/view.jsp?bbsid=1289277491315&category=null&idx=1331515259701&num=637&color=green

[541]Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

[542]Mexico to Encourage Banks to List Shares, Babatz Says, Bloomberg (New York) 12 January 2012. Date of Access: 8 March 2012. http://mobile.bloomberg.com/news/2012-01-13/mexico-to-encourage-banks-to-list-shares-babatz-says-1-.

[543] Report to G20 Leaders on Basel III implementation, Basel Committee on Banking Supervision 11 June 2012. Date of Access: 15 June 2012. http://www.bis.org/publ/bcbs220.pdf.

On 14 February 2012, the Russian State Duma started the procedure of second reading of amendments to federal legislation, which, inter alia, provide for the Russian Central Bank's right to define risk-management practices to be implemented by commercial banks, which allows meeting the requirements of Pillar II of Basel II Accord.[544]

However, Pillar II of Basel II Accord is expected to be fully implemented in Russia not earlier than in 2014 according to the BCBS,[545] and Russian authorities declared that Basel III standards are to be translated into national regulations starting from 2012.[546]

Thus, Russia has declared its intent to translate the new bank capital and liquidity standards into national legislation, but no actions to translate the Basel III bank capital and liquidity standards into national laws and regulations during the compliance cycle has been registered. Thus, Russia has been awarded a score of 0.

Analyst: Andrey Shelepov

Saudi Arabia: +1

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

In a 30 November 2011 speech to The Institute of Banking/Moody's Analytics Sympoisum, H.E. Dr. Abdulrahman Al-Hamidy, Vice-Governor of the Saudi Arabian Monetary Agency (SAMA), pointed out that Saudi Arabia's "Banking Control Law (BCL) already provides for a clear definition of capital and also provides for legal capital, liquidity and leverage ratios and limits on large exposures. The BCL also allows SAMA to introduce appropriate and relevant international standards such as those emanating from the Basel Committee or the Financial Stability Board." Vice-Governor H.E. Dr. Al-Hamidy reckons that SAMA's assessment concluded "that the transition to Basel III in the Basel agreed time frames should be smooth. Saudi banks already maintain a high level of core common equity capital. [...] Similarly Saudi Banks maintain a high level of liquidity [...]. SAMA already requires banks to keep conservation buffers above the minimum and has introduced stringent stress testing requirements."[547]

In April 2012, the BCBG and BIS updated their Progress report on Basel III implementation. According to the report, Saudi Arabia received a classification 3 (of 4) for issuing finalized regulations to banks.[548]

[544] Draft federal law №521063-5 On Introducing Amendments to Federal Laws On Banks and Banking Activities and On Central Bank of the Russian Federation, Russian State Duma 12 March 2012. Date of Access: 31 March 2012. http://asozd.duma.gov.ru/main.nsf/%28Spravka%29?OpenAgent&RN=521063-5.

[545] Progress report table on the Basel II adoption, Basel Committee on Banking Supervision 18 October 2011. Date of Access: 31 March 2012. http://www.bis.org/publ/bcbs/b2prog_rep_table.htm.

[546] 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: 31 March 2011. http://www1.minfin.ru/ru/official/index.php?id4=12478.

[547] Risk Strategies for Basel III Compliance and Beyond, Saudi Arabia Monetary Agency (SAMA) (Riyadh), 30 November 2011. Date of Access: 2 March 2012. http://www.sama.gov.sa/sites/samaen/News/Pages/Risk%20Strategies%20for%20BaselIII.aspx

[548] Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

By assessing its ability to implement the Basel III standards and by having set stringent requirements to its banks, Saudi Arabia has fully complied with its commitment and has thus been awarded a score of +1.

Analyst: Hyrar Tumasyan

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.

On 18 November 2011 the National Treasury of the Republic of South Africa and the South African Reserve Bank confirmed that "on 31 October 2011, the Minister of Finance approved amended Regulation" intended to give effect to "Basel 2.5" and to "strengthen the risk coverage of the capital framework; reduce risks from certain securitisation and off-balance-sheet activities; discourage excessive lending; strengthen board and senior management oversight in banks and banking groups; increase public disclosure; and strengthen the oversight of bankers remuneration." The amended Regulations "will be implemented with effect from 1 January 2012."[549]

In 15 December 2011 Government Gazette No. 34838 the South African Reserve Bank issued "Regulations relating to Banks" which aim at establishing "basic principles relating to the maintenance of effective risk management by banks."[550]

On 8 February 2012 the Circular 2/2012 issued by the South African Reserve Bank confirms that the Office of the Registrar of Banks "is in the process of finalising Draft 1 of the proposed amended Regulations relating to Banks (the Amended Regulations for Basel III), which is due to be issued for comment at the end of March 2012." The proposed Amendments "will essentially deal with the minimum requirements contained in the Basel III framework, which are to be phased in as from 1 January 2012."[551]

On 30 March 2012, the Bank Supervision Department of the South African Reserve Bank "released draft 1 of the complete set of proposed amended Regulations relating to Banks, for comment." The draft regulation sets Capital Adequacy Ratio at 9.5%, composed of an 8%

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[549] Press Release: Amended Bank Regulations to Give Effect to "Basel 2.5", South African National Treasury (Pretoria) 18 November 2011. Date of Access: 23 February 2012. http://www.treasury.gov.za/comm_media/press/2011/2011111801.pdf

[550] Regulations relating to Banks: Published in Government Gazette No. 34838, dated 15 December 2011, South African National Treasury (Pretoria) 19 December 2011. Date of Access: 14 March 2012. http://www.resbank.co.za/publications/detail-item-view/pages/publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblist=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=52

[551] Circular 2/2012 Regulations relating to Banks and related matters – Executive Summary, Office of the Registrar of Banks of the South African Reserve Bank (Pretoria) 8 February 2012. Date of Access: 14 March 2012. http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/4958/C2%20of%202012.pdf

minimum prescribed capital adequacy ratio and a 1.5% additional systemic requirement specified by the Registrar.[552]

South Africa has taken regulatory steps towards the implementation of the standards set in the Basel III framework and has thus been awarded a score of +1.

Analyst: Nick Shorten, Alexandre de Palma

Turkey: -1

Turkey is assessing its progress towards the implementation of the Basel II standards, but has yet to prove its commitment to implement Basel II.5 and Basel III. It has thus failed to comply with its commitment to implement the financial sector reform agenda.

On 31 January 2012 Erdem Başçi, the Governor of the Central Bank of Turkey, presented a speech at the Inflation Report press conference. The speech highlights on the central bank's continued focus on financial stability and careful assessment on the impact of the macro-prudential measures on the inflation outlook.[553]

On 7 March 2012 the Banking Regulation and Supervision Agency published the Turkish Banking Sector's Non-Consolidated Main Indicators. As of January 2012, the Capital Adequacy Standard Ratio of the Turkish Banking Sector was 16.8%, down from 18.4% in January 2011.[554]

On 15 March 2012 the Banking Regulation and Supervision Agency publish a progress report on Turkish Banks' implementation of Basel II.[555]

In April 2012, the BCBS and the BIS updated their Progress report on Basel III implementation. According to the report, Turkey received a classification 1 (of 4) for a lack of progress made towards the adoption of regulatory rules. The BCBS and BIS expect draft regulation to be published in mid-2012.[556]

Turkey has failed to take steps toward translating Basel III bank capital and liquidity standards into national laws and regulations. It has thus been awarded a score of -1.

Analyst: Taufiq Zaman

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[552] Proposed amended Regulations related to Banks, South African Reserve Bank (Pretoria) 30 march 2012. Date of Access: 18 may 2012. http://www.resbank.co.za/Publications/Detail-Item-View/Pages/Publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblist=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=5007

[553] Latest economic outlook and macroeconomic developments in Turkey, Erdem Başçi - Governor of the Central Bank of the Republic of Turkey (Istanbul) 31 January 2012. Date of Access: 26 February 2012 http://www.bis.org/review/r120221a.pdf?frames=0

[554] Turkish Banking Sector Non-Consolidated Main Indicators, Banking Regulation and Supervisory Agency (Ankara) January 2012. Date of Access: 21 March 2012. http://www.bddk.org.tr/websitesi/english/Announcements/Press_Releases/10718press_release__january_2012_.pdf

[555] Bankacılık Sektörü Basel II İlerleme Raporu Yayımlandı, Banking Regulation and Supervisory Agency (Ankara) 15 March 2012. Date of Access 21 March 2012. http://www.bddk.org.tr/WebSitesi/turkce/Duyurular/Basin_Aciklamalari/10728basin_aciklamasi_basel.pdf

[556] Progress report on Basel III implementation, Bank of International Settlements and Basel Committee on Banking Supervision (Basel) April 2012. Date of Access: 18 May 2012. http://www.bis.org/publ/bcbs215.pdf

United Kingdom: +1

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

As a member country of the European Union, the United Kingdom is subject to the Union's regulations and directives.

On 23 November 2011, The Bank of England's interim Financial Policy Committee (FPC) announced its main proposals for financial reform in the British financial services industry. The committee recommended that banks should limit distributions and consider raising external capital in the following months if they found that earnings were insufficient to build capital levels further. Further, it indicated that the Financial Services Authority should give further consultations to banks on improving resilience of balance sheets without exacerbating market fragility, and without reducing lending to the real economy. Finally, the FPC recommended the FSA encourage banks to disclose leverage ratios not later than by 2013, as required by the Basel III agreement.[557]

On 19 December 2011 the Government of the United Kingdom published its response to the Independent Commission on Banking's report published in September 2011. "The Coalition Government warmly welcomes the ICB's recommendations." The Government states that it strongly supports the ICB's "three objectives: make banks better able to absorb losses; make it easier and less costly to sort out banks that still get into trouble; and curb incentives for excessive risk-taking." The Government further supports the ICB's dual approach, which consists of "ring-fencing vital banking services and increasing banks' loss-absorbency." In order to comply with the ICB's recommended timeline, the Government of the United Kingdom "will bring forward a White Paper in spring 2012 which will set out detailed proposals on the ICB's recommendations, and launch a consultation."[558]

On 20 December 2011, the Bank of England released a discussion paper that outlined new key features the Bank of England might adopt in its expanded role as a financial supervisor, including: (1) countercyclical capital buffers for minimum (common equity) liquidity requirements, (2) sectoral capital requirements (variable risk weights that balance each bank's lending to its stock), (3) a maximum leverage ratio, (4) use of central counterparties (CCR), and (5) disclosure requirements, among others. These particular new features would involve establishing a common solvency rule akin to the G7 countries' standard.[559]

In a 31 January 2012 speech at the Euromoney conference Mark Hoban MP, the Financial Secretary to the Treasury, confirmed that the Government will require "ring fenced retail banks to

[557] Financial Stability Report, Bank of England (London) 1 December 2011. Date of Access; 8 March 2012. http://www.bankofengland.co.uk/publications/Documents/fsr/2011/fsrsum1112.pdf.

[558] The Government response to the Independent Banking Commission on Banking, HM Treasury (London), 19 December 2011. Date of Access: 18 March 2012 http://cdn.hm-treasury.gov.uk/govt_response_to_icb_191211.pdf

[559] Instruments of Macroprudential Policy – Discussion Paper, Bank of England (London) 20 December 2011. Date of Access: 1 March 2012. http://www.bankofengland.co.uk/publications/Documents/other/financialstability/discussionpaper111220.pdf.

hold equity capital of at least 10 per cent, more than required under the Basel III agreement, with minimum loss absorbing capacity for the bigger banks of at least 17 per cent."[560]

On 30 November 2011 the European Banking Authority published "consultation papers on guidelines to the Incremental Default and Migration Risk Charge (IRC) and on guidelines to Stressed VaR" (Value at Risk).[561][562][563] Both proposals are intended to become amendments to the CRD III (Capital Requirements Directive) and to enter into force on 31 December 2011.

On 8 December 2011 the European Banking Authority published a formal Recommendation stating that "national supervisory authorities should require the banks included in the sample to strengthen their capital positions by building up an exceptional and temporary capital buffer against sovereign debt exposures to reflect market prices as at the end of September. In addition, banks will be required to establish an exceptional and temporary buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012."[564]

On 19 December 2011 the European Banking Authority published the compliance table regarding the 27 September 2011 EBA Guidelines on Internal Governance that "aim at enhancing and consolidating supervisory expectations and to ultimately improve the sound implementation of internal governance arrangements."[565]

On 20 December 2011 the European Banking Authority issued "a consultation paper on draft Implementing Technical Standards (ITS) on supervisory reporting requirements for institutions." The draft ITS puts forwards asset of rules pertaining to the Capital Requirements Regulation (CRR), a subset of the CRD IV (Capital Requirements Directive) proposal being discussed by

[560] Speech by the Financial Secretary to the Treasury, Mark Hoban MP, at the Euromoney Conference, HM Treasury (London), 31 January 2012. Date of Access: 18 March 2012. http://www.hm-treasury.gov.uk/speech_fst_310112.htm
[561] EBA consultation papers on guidelines to the Incremental Default and Migration Risk Charge (IRC) and on guidelines to Stressed VaR, European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-consultation-papers-on-guidelines-to-the-Incre.aspx
[562] EBA Consultation Paper on the Draft Guidelines on the Incremental Default and Migration Risk Charge (IRC) (CP49), European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012.
http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP49/EBA-BS-2011-165-(CP-on-GL-IRC)-FINAL.pdf
[563]EBA Consultation Paper on the Draft Guidelines on Stressed Value at Risk (Stressed VaR) (CP48), European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012.
http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP48/EBA-BS-2011-166r-(CP48-on-GL-Stressed-VaR)-FINAL.pdf
[564] The EBA publishes Recommendation and final results of bank recapitalisation plan as part of co-ordinated measures to restore confidence in the banking sector, European Banking Authority (London) 8 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/The-EBA-publishes-Recommendation-and-final-results.aspx
[565] The EBA has published compliance table regarding Guidelines on Internal Governance (GL44), European Banking Authority (London) 19 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-published-compliance-table-regarding-Guideline.aspx

European Union institutions. "The EBA intends to finalise the draft ITS and submit it to the Commission by 30 June 2012."[566]

On 25 January 2012 the European Central Bank expressed its opinion "on [1] a proposal for a Directive on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and [2] a proposal for a Regulation on prudential requirements for credit institutions and investment firms." The ECB supports the proposed directive as well as the proposed regulation, and puts forwards recommendations pertaining to macro-prudential supervision, own funds, capital buffers, liquidity, leverage, supervisory reporting, the enhancement of information-sharing arrangements and other issues. The ECB further proposes amendments to the proposed directive and to the proposed regulation.[567]

On 13 February 2012 the European Banking Authority published a Consultation Paper on draft Implementing Technical Standards (ITS) on reporting of large exposures (CP51). The draft ITS is "requested by Article 383 of the Capital Requirements Regulation (CRR) and represents an addendum to the [20 December 2011] ITS proposal on supervisory reporting requirements."[568]

A 3 May 2012 article by the telegraph reports that on 2 May 2012 Britain's Chancellor George Osborne "blocked a European Union agreement on new rules to increase capital requirements for banks" as he considered said measures to be too weak. The newspaper further reports that Mr. Osborne "also pushed for standardised definitions of banking capital rather than allowing country-by-country variations."[569] On 15 May 2012, the European Union's finance ministers struck a deal that "will allow the UK to implement key policies recommended by the Independent Commission on Banking (ICB) last year, such as retail ring-fences and 10pc capital buffers, designed to protect the country from another financial crisis."[570] The Council reached an agreement "on a general approach on two proposals, [...] [which] set out to amend and replace the existing capital requirement directives and divide them into two new legislative instruments: a

[566] EBA Consultation paper on draft ITS on supervisory reporting requirements, European Banking Authority (London) 20 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-consultation-paper-on-draft-ITS-on-supervisory.aspx

[567] Opinion of the European Central Bank (CON/2012/5), European Central Bank (Frankfurt), 25 January 2012. Date of Access: 17 March 2012. http://www.ecb.int/ecb/legal/pdf/en_con_2011_5_f.pdf

[568] EBA publishes a consultation paper on draft ITS on reporting of large exposures, European Banking Authority (London), 13 February 2012. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2012/EBA-publishes-a-consultation-paper-on-draft-ITS-on.aspx

[569] Chancellor George Osborne blocks EU's Basel III rules, The Telegraph (London), 3 May 2012. Date of Access: 18 May 2012. http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9243959/Chancellor-George-Osborne-blocks-EUs-Basel-III-rules.html

[570] George Osborne wins battle for tougher rules on UK banks, The Telegraph (London), 15 May 2012. Date of Access: 18 May 2012. http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9267929/George-Osborne-wins-battle-for-tougher-rules-on-UK-banks.html

regulation establishing prudential requirements that institutions need to respect and a directive governing access to deposit-taking activities."[571]

The United Kingdom has taken regulatory steps towards the implementation of the standards set in the Basel III framework. Moreover, as a member of the European Union, the United Kingdom has also worked towards the transcription of Basel III standards in the EU's regulations. It has thus been awarded a score of +1.

Analyst: Biljana Zorbic, Alexandre de Palma

United States: 0

The United States has partially complied with its commitment to take action to implement the new bank capital and liquidity standards set in the Basel III framework.

On 22 November 2011 "The Federal Reserve Board [...] issued a final rule requiring top-tier U.S. bank holding companies with total consolidated assets of $50 billion or more to submit annual capital plans for review." The Federal Reserve Board stresses that bank holding companies subject to the rule are "expected to have credible plans that show they have sufficient capital so that they can continue to lend to households and businesses, even under adverse conditions, and are well prepared to meet regulatory capital standards agreed to by the Basel Committee on Banking Supervision as they are implemented in the United States."[572]

On 7 December 2011 "the federal bank regulatory agencies [...] announced they [were] seeking comment on a notice of proposed rulemaking (NPR) that would amend an earlier NPR" which "was based largely on the revisions to the market risk framework published by the Basel Committee on Banking Supervision since 2005." Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the federal bank regulatory agencies will replace "references to, and requirements of, reliance on credit ratings from their regulations and replace them with appropriate alternatives for evaluating creditworthiness. The agencies believe that the capital requirements resulting from the implementation of these alternative standards would be generally consistent with the standards in the Basel Committee's revisions."[573]

On 15 December 2011 "Three federal bank regulatory agencies [...] announced they [were] seeking comment on a notice of proposed rulemaking that would revise the market risk capital rules for banking organizations with significant trading activity. The proposed rule would implement changes approved by the Basel Committee on Banking Supervision to its market risk framework."[574]

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[571] Press Release 9733/12, 3167th Council meeting, Economic and Financial Affairs, Council of the European Union (Brussels), 15 May 2012. Date of Access: 18 May 2012. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/130268.pdf

[572] Press release, Board of Governors of the Federal Reserve System (Washington, D.C.), 22 November 2011. Date of Access: 19 March 2012. http://www.federalreserve.gov/newsevents/press/bcreg/20111122a.htm

[573] Agencies Seek Comment on Additional Revisions to the Market Risk Capital Rules, Board of Governors of the Federal reserve System (Washington, D.C.), 7 December 2011. Date of Access: 19 March 2012. http://www.federalreserve.gov/newsevents/press/bcreg/20111207a.htm

[574] Agencies Seek Comment on Market Risk and Basel II Advanced Approaches, Board of Governors of the Federal Reserve System (Washington, D.C.), 15 December 2012. Date of Access: 19 March 2012. http://www.federalreserve.gov/newsevents/press/bcreg/20101215b.htm

On 20 December 2012 the Federal Reserve Board "proposed steps to strengthen regulation and supervision of large bank holding companies and systemically important nonbank financial firms." The proposal includes measures "addressing issues such as capital, liquidity, credit exposure, stress testing, risk management, and early remediation requirements." The Board will "issue a proposal to implement a risk-based capital surcharge based on the framework and methodology developed by the Basel Committee on Banking Supervision [and] one or more proposals to implement quantitative liquidity requirements based on the Basel III liquidity rules."[575]

On 13 March 2012 the Federal Reserve announced summary results of the Comprehensive Capital Analysis and Review (CCAR) that was announced on 2 November 2012. The Federal reserve concluded that "despite the large hypothetical declines, the post-stress capital level in the test exceeds the actual aggregate tier 1 common ratio for the 19 firms prior to the government stress tests conducted in the midst of the financial crisis in early 2009, and reflects a significant increase in capital during the past three years." It further stressed that "15 of the 19 bank holding companies were estimated to maintain capital ratios above all four of the regulatory minimum levels under the hypothetical stress scenario." The agency adds that the stress-tests also assessed the banks' "plans to meet international capital agreements as new requirements are phased in beginning in 2013."

The United States has declared intent to take regulatory steps towards the implementation of the Basel Committee on Banking Supervision's guidelines as set in the Basel III framework and has thus been awarded a score of 0.

Analyst: Alexandre de Palma

European Union: +1

The European Union 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 30 November 2011 the European Banking Authority published "consultation papers on guidelines to the Incremental Default and Migration Risk Charge (IRC) and on guidelines to Stressed VaR" (Value at Risk).[576][577][578] Both proposals are intended to become amendments to the CRD III (Capital Requirements Directive) and to enter into force on 31 December 2011.

[575] Press Release, Board of Governors of the Federal Reserve System (Washington, D.C.), 20 December 2012. Date of Access: 19 March 2012.
http://www.federalreserve.gov/newsevents/press/bcreg/20111220a.htm

[576] EBA consultation papers on guidelines to the Incremental Default and Migration Risk Charge (IRC) and on guidelines to Stressed VaR, European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-consultation-papers-on-guidelines-to-the-Incre.aspx

[577] EBA Consultation Paper on the Draft Guidelines on the Incremental Default and Migration Risk Charge (IRC) (CP49), European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012.
http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP49/EBA-BS-2011-165-(CP-on-GL-IRC)-FINAL.pdf

[578] EBA Consultation Paper on the Draft Guidelines on Stressed Value at Risk (Stressed VaR) (CP48), European Banking Authority (London) 30 November 2011. Date of Access: 17 March 2012.
http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2011/CP48/EBA-BS-2011-166r-(CP48-on-GL-Stressed-VaR)-FINAL.pdf

On 8 December 2011 the European Banking Authority published a formal Recommendation stating that "national supervisory authorities should require the banks included in the sample to strengthen their capital positions by building up an exceptional and temporary capital buffer against sovereign debt exposures to reflect market prices as at the end of September. In addition, banks will be required to establish an exceptional and temporary buffer such that the Core Tier 1 capital ratio reaches a level of 9 per cent by the end of June 2012."[579]

On 19 December 2011 the European Banking Authority published the compliance table regarding the 27 September 2011 EBA Guidelines on Internal Governance that "aim at enhancing and consolidating supervisory expectations and to ultimately improve the sound implementation of internal governance arrangements."[580]

On 20 December 2011 the European Banking Authority issued "a consultation paper on draft Implementing Technical Standards (ITS) on supervisory reporting requirements for institutions." The draft ITS puts forwards asset of rules pertaining to the Capital Requirements Regulation (CRR), a subset of the CRD IV (Capital Requirements Directive) proposal being discussed by European Union institutions. "The EBA intends to finalise the draft ITS and submit it to the Commission by 30 June 2012."[581]

On 25 January 2012 the European Central Bank expressed its opinion "on [1] a proposal for a Directive on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and [2] a proposal for a Regulation on prudential requirements for credit institutions and investment firms." The ECB supports the proposed directive as well as the proposed regulation, and puts forwards recommendations pertaining to macro-prudential supervision, own funds, capital buffers, liquidity, leverage, supervisory reporting, the enhancement of information-sharing arrangements and other issues. The ECB further proposes amendments to the proposed directive and to the proposed regulation.[582]

On 13 February 2012 the European Banking Authority published a Consultation Paper on draft Implementing Technical Standards (ITS) on reporting of large exposures (CP51). The draft ITS is

[579] The EBA publishes Recommendation and final results of bank recapitalisation plan as part of co-ordinated measures to restore confidence in the banking sector, European Banking Authority (London) 8 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/The-EBA-publishes-Recommendation-and-final-results.aspx
[580] The EBA has published compliance table regarding Guidelines on Internal Governance (GL44), European Banking Authority (London) 19 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-published-compliance-table-regarding-Guideline.aspx
[581] EBA Consultation paper on draft ITS on supervisory reporting requirements, European Banking Authority (London) 20 December 2011. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2011/EBA-consultation-paper-on-draft-ITS-on-supervisory.aspx
[582] Opinion of the European Central Bank (CON/2012/5), European Central Bank (Frankfurt), 25 January 2012. Date of Access: 17 March 2012. http://www.ecb.int/ecb/legal/pdf/en_con_2011_5_f.pdf

"requested by Article 383 of the Capital Requirements Regulation (CRR) and represents an addendum to the [20 December 2011] ITS proposal on supervisory reporting requirements."[583]

On 2 May 2012 the Council of the European Union "examined proposals to amend the EU's rules on capital requirements for banks and investment firms [...] with a view to starting the negotiations with the European Parliament aimed at adoption of texts at first reading."[584] On 15 May 2012 the Council reached an agreement "on a general approach on two proposals, [...] [which] set out to amend and replace the existing capital requirement directives and divide them into two new legislative instruments: a regulation establishing prudential requirements that institutions need to respect and a directive governing access to deposit-taking activities."[585]

The European Union has taken regulatory steps towards the implementation of the Basel III standards and has thus been awarded a score of +1.

Analyst: Alexandre de Palma

[583] EBA publishes a consultation paper on draft ITS on reporting of large exposures, European Banking Authority (London), 13 February 2012. Date of Access: 17 March 2012. http://www.eba.europa.eu/News--Communications/Year/2012/EBA-publishes-a-consultation-paper-on-draft-ITS-on.aspx

[584] Press Release 9359/12, 3163rd Council meeting, Economic and Financial Affairs, Council of the European Union (Brussels), 2 May 2012. Date of Access: 18 May 2012. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/130020.pdf

[585] Press Release 9733/12, 3167th Council meeting, Economic and Financial Affairs, Council of the European Union (Brussels), 15 May 2012. Date of Access: 18 May 2012. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/130268.pdf