3. Finance: Basel III

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

Seoul Summit Document

Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina	-1		
Australia			+1
Brazil			
Canada			+1
China		0	
France		0	
Germany		0	
India		0	
Indonesia			+1
Italy			+1
Japan		0	
Korea		0	
Mexico		0	
Russia		0	
Saudi Arabia			+1
South Africa			+1
Turkey		0	
United Kingdom			+1
United States			+1
European Union		0	
Average Score		0.25	

Background:
Basel III framework on new bank capital and liquidity standards is a continuation of Basel I and Basel II initiatives of the Basel Committee on Banking Supervision (BCBS). The BCBS proposed the Basel III framework as a response to the financial crisis that hit the G8 capital markets. The framework aims to strengthen global capital and liquidity regulation in order to instill prudent practices in capital markets and foster a resilient international financial system (see Table 5).[156]

Basel III reforms work on two tiers, the bank level, which aims to help raise the resilience of individual banking institutions to periods of stress, and the macroprudential level, which aims to mitigate 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 the build up of excessive leverage in the banking system, adopt countercyclical capital

[156] 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

framework that will allow for build up of capital buffers in good times that can be drawn upon in periods of stress, as well as adopt a global minimum liquidity standard.[157]

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."[158] The official Basel III framework was put forth by the BCBS to the international community on 26 July 2010.[159] During the G20 Seoul Summit, 11-13 *The Seoul Summit Document* outlined the leaders' commitment to translate the framework into national laws and regulations to be "implemented starting on January 1, 2013, and fully phased in by January 1, 2019."

Table 5: Basel III Requirements for Risk-Weighted Assets (%)

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

Commitment Features:

The commitment consists of two components. First, members are required to translate the framework into national laws and regulations. Second, members will have to 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 start taking actions that will translate the new bank capital and liquidity standards into national laws and regulations, as per the Basel III accords. Such action would include announcements of a public consultation, review process, stress tests, and any announcements of progress in completing new policies as per Basel III accords. Given that the framework has been put forth in 2009 prior to the G20 Seoul Summit, actions taken by G20 members prior to the summit will be counted towards the final score.

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.

[157] 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

[158] 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

[159] 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

Argentina: -1

Argentina has failed to fully implement the new bank capital and liquidity standards. The Argentinean authorities have not announced any plans to implement Basel III reforms and have not made any public statements on the matter.[160]

Hence Argentina registers a score of -1 for failing 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.

Analyst: Robin Elliott

Australia: +1

Australia has complied with its commitment to implement the new bank capital and liquidity standards in compliance with Basel III requirements. The Australian regulating authorities have not only actively discussed the reforms but have adapted them onto the domestic financial legislature and provided Australian banks with the means to begin complying with Basel III.

On 17 December 2010, the Australian Prudential Authority and the Reserve Bank of Australia jointly released details of their plan of action to allow Australian banks to meet new global liquidity standards. Banks will be allowed to establish committed secure liquidity facilities with the RBA, where they can store adequate capital to meet their potential needs under a financial stress situation.[161] The standard is expected to come into effect 1 January 2015.

On 28 February 2011, the Australian Prudential Regulation Authority released further details on the kind of assets would be accepted for holding in the secure liquidity facilities at the RBA.[162] Assets that qualify as Level 1 under Basel III rules are limited to cash, balances held with the RBA, and Commonwealth Government and semi-government securities. No assets will qualify as Level 2.

On 23 March 2011, the Reserve Bank of Australia released its semi-annual financial stability review, wherein it stated that Australian banks have, on average, Basel III Tier 1 capital ratios of approximately 3.5% of liabilities, less that the required levels.[163]

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

Analyst: Robin Elliott

Brazil: 0

Brazil has partially complied with its commitment to implement the new bank capital and liquidity 3 of the Basel III framework. The Bank stated that it intends to implement Basel III

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

[161] Australian implementation of global liquidity standards, Australian Prudential Authority (Canberra) 17 December 2010. Date of Access: 2 April 2011. http://www.apra.gov.au/media-releases/10_27.cfm

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

[163] Financial Stability Review March 2011, Australian Prudential Authority (Canberra) 23 March 2011. Date of Access: 2 April2011. http://www.rba.gov.au/publications/fsr/2011/mar/pdf/0311.pdf

recommendations on the quality of capital, implementation of countercyclical capital, and leverage ratios two years ahead of the BCBS schedule. The Bank intends to release specific regulations starting in 2011.[164]

Given public the public announcement and the development of an implementation timeline, Brazil receives a score of 0.

Analyst: Robin Elliott

Canada: +1

Canada has fully complied with its commitment to implement the new bank capital and liquidity standards in compliance with Basel III requirements. The Office of the Superintendent of Financial Institutions (OSFI) has made Basel III part of its supervisory framework, and has also conducted a Quantitative Impact Study on the Canadian banking sector.[165]

On 12 January 2011, Finance Minister Jim Flaherty, during a speech delivered at the Woodrow Wilson Institute, stated that the Canadian regulatory authorities were well positioned to transition to the new Basel III standards on capital and leverage "ahead of the deadline."[166]

On 1 February 2011, the Office of the Superintendent of Financial Institutions Canada sent a letter to Canadian financial institutions with general details of the regulatory changes it intended to make to as a result of the new Basel III requirements.[167] On 3 February 2011, the OSFI released the results of its consultation with financial industry members, conducted in early 2010.[168] Further, the OFSI released a supplementary advisory clarifying its intended treatment of non-qualifying capital instruments under a new Basel III-compliant supervisory scheme.[169]

On 24 February 2011, the OSFI released a new Supervisory framework that details the process the OSFI uses to supervise federally regulated financial institutions and its approach to adopting the Basel III framework.[170]

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

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

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

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

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

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

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

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 its analysis of the financial health of its banking sector.

Analyst: Robin Elliott

China: 0

China has partially complied with its commitment to implement the new bank capital and liquidity standards in accordance with Basel III requirements. The regulatory authorities have investigated the health of its banks and have announced its intention to implement the Basel III framework onto the domestic legislature.

On 18 February 2011, the China Banking Regulatory Committee stated that China's commercial banks had a weighted average capital adequacy ratio of 12.2%, and a weighted average core capital adequacy ratio of 10.1%. At the end of 2010, all commercial banks exceeded the minimum capital adequacy ratio of 8%.[171]

In March 2011, the CRBC issued its Annual Report 2010, in which CRBC Chair Liu Minkang stated that the CRBC had developed roadmaps for the implementation of Basel II and Basel III frameworks.[172] The report also stated that the CRBC had required commercial banks to retain a capital conservation buffer, and maintain a minimum capital adequacy ratio of 8%.[173]

Thus China has been awarded a score of 0 for its examination of its financial sector and its declaration of intent to enact Basel III.

Analyst: Robin Elliott

France: 0

France has partially complied with adopting the Basel III framework on new capital and liquidity standards. France undertook part in the European stress tests in 2010.

On 23 July 2010, the Bank of France announced that it had completed its part of the EU-wide banking stress tests, and stated that "French banks are among the strongest in Europe."[174]

Under the auspices of the European Union, France will be subject to Capital Requirements Directive 4 (CRD 4), adopted in October 2010, a comprehensive supervisory framework for the financial services industry on capital standards and measurements, that will require the new

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

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

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

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

capital and liquidity standards to be adopted with due regard to the economic cycle and ongoing economic recovery.[175]

Hence France receives a score of 0.

Analyst: Robin Elliott

Germany: 0

Germany has partially complied with adopting the Basel III framework on new capital and liquidity standards. Germany undertook part in the European stress tests in 2010.

On 23 July 2010, the Bundesbank and the Federal Financial Supervisory Authority announced that they had completed Germany's part of the EU-wide banking stress tests.[176]

Under the auspices of the European Union, Germany will be subject to Capital Requirements Directive 4 (CRD 4), adopted in October 2010, a comprehensive supervisory framework for the financial services industry on capital standards and measurements, that will require the new capital and liquidity standards to be adopted with due regard to the economic cycle and ongoing economic recovery.[177]

Hence since Germany took part in the EU-wide banking stress tests, it receives a score of 0.

Analyst: Robin Elliott

India: 0

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

On 3 December 2010, Reserve Bank of India Governor Dr. Duvvuri Subbarao stated that India was well-positioned to comply with Basel III capital requirements.[178] The majority of Indian banks already complies with the requirements. As of 30 June 2010, Indian banks' capital to risk weighted assets ratio was 11.7%, versus the 10.5% required; their Tier 1 capital represented 9% of risk-adjusted assets, versus the 8.5% required; their common equity represented 7.4% of risk-

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

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

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

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

adjusted assets, versus the 7% required. Dr. Subbarao stated that those few banks that were not already compliant should have no difficulty meeting Basel III standards by 2019.[179]

On 30 December 2010, the Reserve Bank of India released the quarterly results of their stress-testing of the Indian banking sector. They reiterated that they will continue to carry out stress testing on a continuous basis.[180] On 7 January 2011, Dr. Subbarao stated that the Reserve Bank of India was "in the process of evaluating the impact of Basel III on Indian banks."[181]

Given that India has investigated the financial health of its banks and has stated that it is in the process of evaluating Basel III, it receives a score of 0.

Analyst: Robin Elliott

Indonesia: +1

Indonesia has fully complied with adopting the Basel III framework on new capital and liquidity standards. The regulating authorities have stated that they are enacting Basel III, and made some regulatory changes compliant with it, and have examined financial health of its banks.

On 15 September 2010, Bank of Indonesia Deputy Governor Halim Alamsyah stated that the Indonesian banking sector was on average already above the capital requirements set out in Basel III, with an average core capital ratio of between 14 and 16%.[182]

On 1 April 2011 the Financial Stability Board published comments from the Indonesian government, in which the latter stated that Basel III regulations were "on [*sic*] the pipeline" and that they would be adopted in a time frame "consistent with Indonesian banking sector conditions." It further stated that it has put in place a new risk-based bank rating system that takes Basel III leverage ratios into account.[183]

Given that Indonesia has checked the status of its banks, has declared that it intends to adopt Basel III and has already begun to take some aspects of the new Basel framework into its domestic regulations, it receives a score of +1.

Analyst: Robin Elliott

Italy: +1

Italy has fully complied with its commitment to fully implement the new bank capital and liquidity standards in accordance with the Basel III framework. Italy has undertaken part in EU

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

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

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

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

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

wide stress tests, has begun to make systemic changes to its banking sector in order to reduce future risk, has announced plans for moving towards further reforms, and has set up assistance for Italy's banks to transition to Basel III capital and liquidity standards.

On 23 July 2010, the Bank of Italy announced that it had completed its part of the EU-wide banking stress tests.[184] On 26 February 2011, Bank of Italy governor Mario Draghi gave a speech regarding the health of the Italian financial system. He announced that the Bank had "identified many of the perverse incentives that encouraged excessive risk-taking – in banks' executive compensation systems, in the role of rating agencies and in the accounting rules – and begun to rectify them." Mr. Draghi also stated that the Bank would draw up parameters for identifying global SIFIs by mid-year. He further remarked that a map of non-bank intermediaries (the "shadow banking system") would be drawn up in order to better regulate such institutions. Finally, Mr. Draghi disclosed that Italy's smaller banks already have capitalization levels in line with the Basel III requirements, and that the top five banks had, as of the end of September 2010, Tier 1 capital ratios of 9%, and core Tier 1 capital ratios of 7.9% of risk assets.[185]

On 9 March 2011, the Bank of Italy announced its intention to assist Italian banks in making the transition towards the new Basel III standards. To this end it created a "Basel III Helpdesk" to respond to industry questions.[186]

Thus for its actions in reducing perverse incentives, its participation in stress testing, its investigation of its banks' financial health, and its assistance of the industry in transitioning towards Basel III, Italy receives a score of +1.

Analyst: Robin Elliott

Japan: 0

Japan has partially complied with this commitment to fully implement the new bank capital and liquidity standards in accordance with the Basel III framework. The government has stated that it will implement Basel III.

On 1 April 2011, the Financial Stability Board published a report wherein the Bank of Japan and the Financial Services Authority jointly commented that they intend to implement Basel III rules in a fashion that will not deter banks' lending activities.[187]

In September 2010, an official of Japan's Financial Services Agency announced that the Japanese banking system will be able to achieve Basel III standards through management efforts.[188]

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

[185] Speech by the Governor of the Bank of Italy Mario Draghi, Bank of Italy (Rome) 26 February 2011. Date of Access: 2 April 2011. http://www.bancaditalia.it/interventi/integov/2011/forex-26022011/en_Draghi_260211.pdf

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

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

[188] Japan confident banks can handle Basel III, France 24 (Paris) 13 September 2010. Date of Access: 10 May 2011. http://www.france24.com/en/20100913-japan-confident-banks-can-handle-basel-iii#

Japan is awarded a score of 0 for declaring its intention to implement the Basel III reforms. However, no documentation has been observed that supports its implementation progress.

Analyst: Robin Elliott

Korea: 0

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

On 17 December 2010, the Financial Services Commission released its analysis of the results of the Basel Committee on Banking Supervision's Quantitative Impact Study. The results of the study have shown that the eight major Korean banks tested, capital ratios under Basel III rules would be on average above 10%, and leverage ratios would be 4.6%.[189]

Korea has adopted the Basel II capital framework as of the end of 2008.[190] On 8 September 2010, Director General of Seoul's G20 Committee, Kim Yong-beom announced that Korean banks will not be required to shrink their assets or raise additional capital as they met Basel III capital-to-asset standards.[191] However, he announced that Korean banks will need to take further measures to meet the liquidity ratio standards during the transition period.[192]

Thus for having conducted financial health testing for major banks under Basel III rules, Korea receives a score of 0.

Analyst: Robin Elliott

Mexico: 0

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

On 23 September 2010, the Financial Stability Board released Mexico Country Peer Review. The report stated that the Bank of Mexico was conducting macro stress tests of banks using a recently developed macro model.[193] As of September 2010, Mexican banks had on average capitalization ratios above 14%, versus the Basel III requirements of 8%, that Mexican banks had on average risk-weighted asset percentages of at least 15%, and that Mexican banks had on average a ratio of assets-to-equity of at least 8.[194]

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

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

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

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

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

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

On 10 January 2011, in a joint press release regarding a new IMF loan, Bank of Mexico Governor Agustin Carstens and Treasury Secretary Ernesto Arroyo stated that Mexico was preparing for the implementation of Basel III.[195] The FSB has reported that at January 2011, the average Total Capital Ratio of the banking system was 17% and the Tier 1 capital was 15% and all banking institutions registered a level of above 10%.[196]

On 1 April 2011, the Financial Stability Board published a report wherein the government of Mexico stated that its financial authorities were working on the implementation of Basel III guidelines.[197]

Hence Mexico is awarded a score of 0 for conducting stress tests of its banks and having declared its readiness towards Basel III implementation.

Analyst: Robin Elliott

Russia: 0

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

On 12 January 2011, Russian Central bank started public consultations with the Russian banks, credit associations and experts on Sound Practices for the Management and Supervision of Operational Risk issued by the Basel Committee.[198]

On 5 April 2011, the Russian Government and the Russian Central Bank adopted the Strategy of Russian Banking Sector Development for the Period up to 2015.[199] The strategy provides for the beginning of Basel III standards introduction in Russia in 2011 and their complete adoption in 2018.[200]

Hence Russia registers a score of 0.

Analyst: Andrey Shelepov

Saudi Arabia: +1

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

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

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

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

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

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

According to an Economic Reseach briefing on Saudi Arabia by Al Rajhi Capital, Saudi Arabia's transition to Basel III capital requirements will be smooth due to the country's already-high capital requirements for banks. According to the report, "Although adoption of the proposed measures will require banks to maintain both higher capital ratios and better-quality capital, the transition for the well-capitalized Saudi banks is likely to be smooth."[201]

Saudi Arabia appears to be on track for implementation of Basel III capitalization requirements within the recommended timeline, earning a score of +1.

Analyst: Robin Elliott

South Africa: +1

South Africa has fully complied with its commitment on adopting Basel III framework onto the national legislature. It has investigated the financial health of its banks, and has drafted amendments to its financial laws to improve stability.

On 23 February 2011, the South African National Treasury released a report on the South African financial sector, which outlined both its financial health, and the Treasury's progress on Basel III reforms. The Treasury stated that the banks' current leverage ratio was far more conservative than that required by Basel III. Consequently, there was no requirement for South African banks to either raise capital or deleverage, even to meet the new capital conservation buffer requirement. The Treasury further revealed that it had already sent three drafts of proposed amendments to the Banks Act out for comments. After receiving comments, the Treasury expects that the amended regulations will be submitted to the Finance Ministry for approval by mid-2011.[202]

Hence given that South Africa has examined the state of its financial sector, and has taken steps to translate the Basel III framework into national laws and regulations, it receives a score of +1.

Analyst: Robin Elliott

Turkey: 0

Turkey has partially complied with its commitment on adopting Basel III framework onto the national legislature. It has investigated the health of its financial sector to see whether it would be Basel III compliant.

On 29 November 2010, the Banking Regulation and Supervision Agency of Turkey published a report entitled "Questions on Basel III." It stated that Turkey's banking sector would easily be able to meet the new Basel III requirements, with a current capital ratio of 9.9%. It furthermore stated that as of June 2010, the Turkish banking sector had a capital adequacy ratio of 19.9%, and concluded that Turkish banking reforms carried out in 2006 what had made domestic banks largely Basel III-compliant already.[203]

Thus Turkey receives a compliance score of 0.

Analyst: Robin Elliott

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

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

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

United Kingdom: +1
The United Kingdom has fully complied with its commitment to fully implement the new bank capital and liquidity standards in accordance with the Basel III framework. It has conducted banking stress tests, has stated that it intends to strengthen financial regulations, and has adopted Basel III standards into its supervisory framework.

On 23 July 2010, the UK Financial Services Authority announced that it had completed its part of the EU-wide banking stress tests.[204]

On 16 February 2011, FSA Chairman Adair Turner announced that for 2011, "a key policy objective … is to ensure that Financial Stability Board (FSB) decisions on SIFIs result in higher than Basel III equity requirements for our most systemically important banks." He further stated that the Financial Stability Board was developing recommendations on how regulators should monitor and if necessary regulate shadow bank activities.[205]

On 17 March 2011 the FSA published its Prudential Risk Outlook 2011, wherein it stated that until the Basel III framework had been passed into law, both domestically and through the EU, it planned to keep in place an interim capital framework with certain features that mirror the Basel III requirements. These include an increase in the minimum common equity capital ratio to 4.5% of risk-weighted assets, phased in between 2013 and 2015; the addition of a capital conservation buffer of 2.5% of risk-weighted assets to be phased in between 2016 and 2019; a minimum Tier 1 capital ratio of 6% and a minimum total capital ratio of 8%, phased in between 2013 and 2015.[206]

Thus the United Kingdom has conducted stress tests, improved its financial regulation, and expressed intent to go further; it receives a score of +1.

Analyst: Robin Elliott

United States: +1
The United States has fully complied with its commitment on adopting Basel III framework onto the national legislature. The US has enacted a financial sector reform bill, and has declared that it is committed to incorporating Basel III into its domestic law.

On 21 July 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. S.165(i)(1)(A) of the Dodd-Frank Act requires regulators to carry out yearly stress tests for nonbank financial institutions. It also obliges these same companies to carry out semi-annual stress tests. Section 171 sets out some general rules regarding bank capital requirement, but does not define actual required levels of Tier 1 capital. The Dodd-Frank Act does not make transposition of the Basel III agreement mandatory.[207]

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[204] FSA Statement on the Publication of CEBS Stress Tests, Financial Services Authority (London) 23 July 2010. Date of Access: 2 April 2011.
http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/125.shtml
[205] Leverage, Maturity Transformation and Financial Stability: Challenges Beyond Basel III, Financial Services Authority (London) 16 February 2011. Date of Access: 2 April 2011.
http://www.fsa.gov.uk/pubs/speeches/031611_at.pdf
[206] FSA Prudential Risk Outlook 2011, Financial Services Authority (London) 17 March 2011. Date of Access: 2 April 2011. http://www.fsa.gov.uk/pubs/other/pro.pdf
[207] Dodd-Frank Wall Street Reform and Consumer Protection Act, US Government (Washington, DC) 21 July 2010. Date of Access: 1 April 2011. http://www.sec.gov/about/laws/wallstreetreform-cpa.pdf

On 17 February 2011, before the Senate Committee on Banking, Housing, and Urban Affairs, Federal Reserve Chairman Ben Bernanke stated: "We are committed to adopting the Basel III framework in a timely manner. In December 2010, we requested comment with the other U.S. banking agencies on proposed rules that would implement the 2009 trading book reforms, and we are already working to incorporate other aspects of the Basel III framework into U.S. regulations."[208]

On 17 March 2011, at the AIMA Policy and Regulatory Forum 2011 in Brussels, Belgium, Deputy Assistant Secretary for International Monetary and Financial Policy Mark Sobel remarked that "U.S. agencies are working on domestic rulemaking to incorporate Basel III into their rules and guidance, and [US Treasury Secretary Timothy Geithner] has repeatedly stated that the United States is committed to implementing Basel III requirements on the agreed schedules."[209]

Hence the United States registers a score of +1 for declaring its commitments to enacting Basel III, and having enacted a financial sector reform bill that will reduce systemic risk.

Analyst: Robin Elliott

European Union: 0

The European Union has partially complied with adopting the Basel III framework on new capital and liquidity standards. The regulatory authorities have declared its support for the enactment of Basel III and have created a new financial regulator to detect systemic risks.

On 7 October 2010, the European Parliament adopted Capital Requirements Directive 4 (CRD 4), a comprehensive supervisory framework for the financial services industry on capital standards and measurements, that will require the new capital and liquidity standards "to be adopted with due regard to the economic cycle and ongoing economic recovery," and that the Parliament "supports the initiative to increase the quality and level of capital in response to the crisis."[210]

On 16 December 2010, the European Commission legislation establishing European Systemic Risk Board entered into force.[211] The ESRB is an independent and supervisory body charged with identifying systemic risks across the European financial system and responsible for the macroprudential oversight of the financial system within the EU.[212] The ESRB will be tasked

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

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

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

[211] 16 December 2010: The legislation establishing the ESRB enters into force, European Systemic Risk Board (Frankfurt am Main) 16 December 2010. Date of Access: 30 March 2011. http://www.esrb.europa.eu/home/html/index.en.html

[212] 16 December 2010: The legislation establishing the ESRB enters into force, European Systemic Risk Board (Frankfurt am Main) 16 December 2010. Date of Access: 30 March 2011. http://www.esrb.europa.eu/home/html/index.en.html

with identifying and issuing recommendations for remedial action in response to the risks identified.[213]

Thus the European Union has been awarded a score of 0 for strengthening its regulatory structure against future crises.

Analyst: Robin Elliott

[213] 16 December 2010: The legislation establishing the ESRB enters into force, European Systemic Risk Board (Frankfurt am Main) 16 December 2010. Date of Access: 30 March 2011. http://www.esrb.europa.eu/home/html/index.en.html