An Overview of Basel III

Advanced Program on Basel III
CAFRAL, RBI
Mumbai, India
15-16 July 2014

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Financial Stability Institute
Bank for International Settlements
Basel, Switzerland
Agenda

1. Financial Stability Institute and the Basel Committee on Banking Supervision: An outline

2. The Background: Financial Crisis (in brief)

3. The Response: Basel III
   - Quantity and Quality of Capital
   - Capital buffers
   - Leverage
   - Macroprudential Aspects

4. Implementation Issues
FSI’s role in disseminating international standards

Standards
- FSB
- BCBS
- IAIS
- IADI
- IOSCO
- CPSS

Dissemination
- FSI
- High-level Meetings & Seminars
- FSI Connect (web-based)

Outreach
- 1,800+ participants
- 15 regional groups
- 50 events
- 9,000+ users
- 240+ institutions
- 140+ countries
Basel Committee on Banking Supervision (BCBS)

- Primary global standard-setter for the prudential regulation of banks
- Provides a forum for cooperation on banking supervisory matters.
- Mandate - to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability
- Not a formal supranational authority
- Its decisions do not have legal force
  - relies on its members' commitments
Basel Committee on Banking Supervision

- Members: 27 jurisdictions - Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States
  - March 2009 – (Australia, etc..)
  - June 2009 – (Argentina, etc..)

- Observers on the Basel Committee:
  - Financial Stability Institute, European Commission, European Central Bank, European Banking Authority, International Monetary Fund

- Secretariat – hosted by the Bank for International Settlements

- Oversight body- The Group of Governors and Heads of Supervision (GHOS)
Standards, Guidelines, Sound Practices

- **Standards (minimum requirements)** for the prudential regulation and supervision of banks.
  - full implementation expected (by BCBS members, for Intl. active banks)

- **Guidelines** elaborate the standards in areas where they are considered desirable for the prudential regulation and supervision of banks, in particular international active banks
  - generally supplement standards by providing additional guidance for implementation purposes
  - “External audits of banks”, March 2014 supplements CP 27

- **Sound Practices** - actual observed practices, with the goal of promoting common understanding and improving supervisory or banking practices
  - “A Sound Capital Planning Process: Fundamental Elements ” (Sound practices), January 2014
Basel III: 30 years of bank capital regulation

- 07/1988: Basel I issued
- 12/1996: Market risk amendment issued
- 06/2004: Basel II issued
- 12/2009: Basel III consultative document issued
- 01/2019: Full implementation of Basel III
- 12/1992: Basel I fully implemented
- 12/1997: Market risk amendment implemented
- 12/2006: Basel II implemented
- 12/2007: Basel II advanced approaches implemented
- 12/2011: Trading book rules implemented
- 01/2013: Basel III becomes effective

12/2010: Basel III Framework
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   - Implementation Issues
The crisis

“It is a crisis of confidence, of capital, of credit and of consumer and business demand”

- The Financial Stability Plan of the USA (10 Feb 2009)

- Also a humanitarian crisis
The Financial Crisis – some aspects

Overall Economy-
- Macroeconomic imbalances
- Low real interest Rates
- Benign eco. environ.
- Ample liquidity
- Search for “yield”
- Rising house price “bubble”

Financial Sector-
- Increased risk appetite
- Leverage
- Growth of financial sector

- Basel II Framework
- Supervisory failures

- Risk Management
  - underwriting standards & originate-to-distribute strategy
  - Liquidity risk
  - Stress Testing
  - Compensation

- Rating Agencies
- Transparency
- Valuation

- Financial Stability Assessment
- Perimeter of regulation
- Bank resolution

Underlying weaknesses
MADAM,

When Your Majesty visited the London School of Economics last November, you quite rightly asked: why had nobody noticed that the credit crunch was on its way?

...... There were many warnings about imbalances in financial markets and in the global economy. For example, the Bank of International Settlements expressed repeated concerns that risks did not seem to be properly reflected in financial markets.
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   • Implementation Issues
Basel III – Main building blocks (December 2010)

BASEL III

MICROPRUDENTIAL

Capital: Level and Quality
Liquidity Standards

MACROPRUDENTIAL

Reduce procyclicality
Address systemic risk

Supplement risk-based capital with leverage ratio
Basel III: Quantity and Quality of Capital
Long run capital levels for US commercial banks (1840-1993)
- $1.76 trillion capital raised by above banks
- $1.64 trillion (93%) of capital raised was in the form of debt
- share buy-back (rather than share issuance) of $24.1bn by above banks

Basel II: Components of regulatory capital

- **Core Tier 1** (≥50% of Tier 1)
  - Ordinary shares
  - Reserves

- **Other non-innovative Tier 1**
  - Non-cumulative preference shares (with call option)

- **Innovative Tier 1** (≤ 15% of Tier 1)
  - Non-cumulative preference shares (with call option + step up clauses)
  - Perpetual cumulative preference shares
  - Perpetual subordinated debt
  - Collective provisions
  - Surplus of IRB provisions

- **Upper Tier 2**
  - Non-perpetual subordinated debt (minimum maturity of 5 years)
  - Fixed Term preference shares

- **Lower Tier 2** (≤50% of Tier 1)
  - ≤ Tier 1

**Crisis: focus only on TCE (Shares+Reserves)-Intangibles**

The Basel III reform of bank capital regulation

**New capital ratios**
- Common equity
- Tier 1
- Total capital
- Capital conservation buffer

**Raising the quality of capital**
- Focus on common equity
- Stricter criteria for Tier 1
- Harmonised deductions from capital

**Capital ratio** = \[
\frac{\text{Capital}}{\text{Risk-weighted assets}}
\]

**Macroprudential overlay**
- **Leverage ratio**

**Mitigating procyclicality**
- Countercyclical buffer

**Mitigating systemic risk**
- HLA for SIFIs
- Contingent capital
- Bail-in debt
- OTC derivatives

**Enhancing risk coverage**
- Securitisation products
- Trading book
- Counterparty credit risk
Basel III: Raising the Quality and Level of Capital

- **Basel II:**
  - Common equity could be only 2% of RWA
    - Total capital (T1+T2) =8%; T1(4%) ≥ T2(4%); T1 (common equity) =2%
  - Deductions applied to Tier 1 or Total Capital
  - Ratios not comparable due to lack of harmonisation
  - Transparency

- **Basel III:**
  - Raise quality, consistency and transparency of capital
  - CET1, Addl T1, T2 (Going and Gone Concern Capital)
  - Focus on common equity (after deductions)
  - From instrument-based to criteria-based requirements
    (CET1-14, AT1-14, & T2-9)
  - Harmonised deductions
  - Transparency
Regulatory adjustments

- Goodwill and other intangibles
- *Deferred tax assets (arising from temporary differences)*
- *Mortgage servicing rights*
- Certain elements of cash flow hedge reserve
- Shortfall of provisions to expected losses (IRB banks)
- Gain on sale related to securitisation transactions
- Gains and losses due to the changes in own credit risk on fair valued financial liabilities
- Defined benefit pension fund assets
- Investments in own shares
- Reciprocal cross holdings
- *Significant Investments in common shares of unconsolidated financial entities* *

*Specified Items: Threshold Deductions, individual recognition 10%, collective 15% of CET1*
## Definition and Structure of Capital in Basel III

<table>
<thead>
<tr>
<th>Balance sheet component</th>
<th>Main (required) features</th>
<th>Going-concern loss absorption</th>
<th>Gone-concern loss absorption</th>
</tr>
</thead>
</table>
| Common Equity Tier 1 (CET1) | • Common shares  
• Reserves (eg retained earnings)  
• Less regulatory adjustments | • Retained earnings reduced as losses incurred | • Subordination in liquidation |
| Additional Tier 1 capital (AT1) | • Perpetual instruments  
• Fully discretionary coupons / dividends | • Discretionary coupons/ dividends  
• If accounted for as a liability, required to have going concern write down/conversion | • Subordination in liquidation.  
• Point of non-viability write-down/conversion |
| Tier 2 subordinated debt (T2) | • Subordinated debt  
• Maturity > 5 years  
• Coupons can be mandatory | • None | • Subordination in liquidation  
• Point of non-viability write-down/conversion |
### Basel III capital requirements

<table>
<thead>
<tr>
<th>Capital Framework</th>
<th>Common Equity after deductions</th>
<th>Tier 1 capital</th>
<th>Total capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>4.5%</td>
<td>6.0% (4.5%+1.5%)</td>
<td>8.0% (6%+2.0%)</td>
</tr>
<tr>
<td>Conservation buffer</td>
<td>2.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum plus buffer</td>
<td>7.0%</td>
<td>8.5% (7+1.5)</td>
<td>10.5% (7+1.5+2.0)</td>
</tr>
<tr>
<td>Countercyclical buffer range</td>
<td>0 – 2.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HLA for G-SIBs</td>
<td>1-2.5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Basel II**: Min common equity = 2%, Min Tier 1= 4%
- **Basel III 8% ≠ Basel II 8%**
Basel III raises the **level** of regulatory capital

*CET1 = Common Equity Tier 1  
AT1 = Additional Tier 1*

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<table>
<thead>
<tr>
<th>Basel I/II</th>
<th>Basel III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Tier 1 (CET 1)</td>
<td>CET 1</td>
</tr>
<tr>
<td>8%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Non-Innovative/Innovative T1 (AT1)</td>
<td>AT1</td>
</tr>
<tr>
<td>4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Tier 2</td>
<td>Tier 2</td>
</tr>
<tr>
<td>2%</td>
<td>0-2.5%</td>
</tr>
</tbody>
</table>

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G-SIB HLA:
- 1 - 2.5%
- 2%
- 1.5%
- 0-2.5%
- 2.5%
- 4.5%

Minimum requirement:
- 4.5%

Counter-cyclical capital buffer:
- 7%

Capital conservation buffer:
- 9.5%

Minimum requirement:
- 12.0%
Capital Buffers
Capital and Capital Buffers

- Good quality Brakes & Airbags
- Safe distance – normal times
- Safe distance – not normal times
The Capital Buffers

1. Capital Conservation Buffer
   - Establishes buffer above the minimum requirement - banks to build capital buffers in good times (by reducing discretionary distributions of earnings)
   - Draw down buffers during stress
   - Strengthens ability to withstand adverse environments, Greater resilience going into a downturn, Reduces procyclicality
   - Requirement: CET1 = 2.5% of RWA
   - Constraints imposed if CET1 ratio falls within buffer range:
     - On the distribution of dividends, on bonuses and share buybacks
   - Supervisory discretion to impose time limits on banks operating within the buffer range

2. Countercyclical Capital Buffer
   - To protect banking sector from periods of excessive aggregate credit growth (private sector credit-to-GDP gap) often associated with system-wide risk
   - Not about solvency of a bank in first instance (covered by min. capital req.)
   - Potential moderating effect on credit cycle (Potential positive side benefit, not primary objective)
   - Extends capital conservation buffer (i.e. to be met with CET1 capital)
   - Buffer range between 0 - 2.5% of RWA
     - Deployed during build-up phase of system-wide risk
     - Deactivated when system-wide risk dissipates
   - Pre-announce decisions to raise buffer levels by up to 12 months
The functioning of the capital buffers

- The **capital conservation buffer** establishes a fixed range above the minimum CET1 requirement. When a bank’s CET1 ratio falls into this range it becomes subject to restrictions on distributions.

- The **countercyclical capital buffer** works by extending the size of capital conservation buffer during periods of excess credit growth.

Countercyclical buffer could be met with CET1 or other fully loss absorbing capital beyond CET1. Till further guidance, it will be CET1.
### Conservation requirements: An illustration

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Hypothetical banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conservation Buffer</td>
<td>2.5%</td>
</tr>
<tr>
<td>Minimum</td>
<td>4.5%</td>
</tr>
<tr>
<td>Bank A</td>
<td>9%</td>
</tr>
<tr>
<td>Bank B</td>
<td>6.8%</td>
</tr>
<tr>
<td>Bank C</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

#### Individual bank minimum capital conservation standards

<table>
<thead>
<tr>
<th>CET1 Ratio</th>
<th>Minimum Capital Conservation Ratios (% of earnings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 7%</td>
<td>0%</td>
</tr>
<tr>
<td>&gt; 6.375% - 7%</td>
<td>40%</td>
</tr>
<tr>
<td>&gt; 5.75% - 6.375%</td>
<td>60%</td>
</tr>
<tr>
<td>&gt; 5.125% - 5.75%</td>
<td>80%</td>
</tr>
<tr>
<td>&gt; 4.5% - 5.125%</td>
<td>100%</td>
</tr>
</tbody>
</table>
UK Basel III implementation: increase in capital

- For the largest UK banks Basel III will mean 7-fold increase in CET1

<table>
<thead>
<tr>
<th>UK: Top 5 banks - Pillar 1 capital (CET1)</th>
<th>Sept 2013 Amt in GBP billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pillar 1 Capital (CET1) under Basel III</td>
<td>271</td>
</tr>
<tr>
<td>Pillar 1 Capital (CET1) under Basel II</td>
<td>38</td>
</tr>
<tr>
<td>Increase in capital (CET1) under Basel III</td>
<td>233</td>
</tr>
<tr>
<td>Of which, increase on account of change in definition of capital</td>
<td>80</td>
</tr>
<tr>
<td>Increase of minimum CET1 from 2% to 4.5% (and changes to risk weights)</td>
<td>61</td>
</tr>
<tr>
<td>Conservation buffer</td>
<td>55</td>
</tr>
<tr>
<td>G-SIB buffer</td>
<td>37</td>
</tr>
</tbody>
</table>

Between 2008 and 2014 Pillar 2A requirements for major UK have increased from GBP 22bn to 53bn, in addition to pillar 1 increases

Source: Andrew Bailey speech 10 July 2014
Leverage Ratio
**Basel III capital ratio vs. Leverage ratio**

**Basel III capital ratio**

- **Capital**
  - Risk Weighted Assets

**Leverage Ratio**

- **Capital (Tier 1)**
  - On & off -B/S Assets+SFT+ Derivatives
Leverage Ratio

- A simple, transparent, independent measure of risk
- Objectives:
  - Constrain the build up of leverage in banking sector
  - Reinforce the risk-based requirements with a simple, non-risk based “backstop” measure
- 1 January 2013- start of bank-level reporting of the leverage ratio and its components to national supervisors
- 1 January 2015- public disclosure
- BCBS will continue monitoring the impact of these disclosure requirements.
- By 2017 - The final calibration, and any further adjustments to the definition, will be completed
- 1 January 2018- migrating to a Pillar 1 (minimum capital requirement) treatment
Leverage Ratio (Jan 2014)

\[
\text{Leverage Ratio} = \frac{\text{Tier 1 capital}}{\text{On~&~off~balance sheet items + derivatives + SFTs}} \geq 3\%
\]

**On-balance sheet items**
- Accounting value net of specific provisions / valuation adjustments
- Includes collateral from derivatives & SFT

**Off-balance sheet items**
- Apply credit conversion factors (CCFs) of solvency rules
- Subject to floor of 10%

**Securities financing transactions (SFT)**
- Gross SFT assets (with no recognition of netting)
- Cash payables and cash receivables in SFTs may be measured net subject to specified conditions
- CCR exposure for SFT assets only taking into account current exposure (i.e. no PFE portion)

**Derivatives exposures**
- Replacement cost + Add-on for potential future exposure (PFE) – (i.e. current exposure method)
- Exposure measure can be adjusted to reflect:
  - Eligible bilateral netting
  - Eligible cash variation margin (no other collateral recognised)
- Any collateral provided which is deducted from balance sheet must be grossed-up
- Eligible CCP-leg of client cleared trade exposures are exempted

Final calibration during parallel run period (Jan 2013-Jan 2017)
Macroprudential Aspects
### Microprudential vs Macroprudential Approach

<table>
<thead>
<tr>
<th></th>
<th>Microprudential</th>
<th>Macroprudential</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Focus</strong></td>
<td>limit distress of individual institutions</td>
<td>limit financial system-wide distress</td>
</tr>
<tr>
<td><strong>Key Objective</strong></td>
<td>consumer (investor/depositor) protection</td>
<td>avoid output (GDP) costs linked to financial instability</td>
</tr>
<tr>
<td><strong>Correlations and common exposures across institutions</strong></td>
<td>useful to understand</td>
<td>critical</td>
</tr>
<tr>
<td><strong>Calibration of prudential controls</strong></td>
<td>in terms of risks of individual institutions; bottom-up</td>
<td>in terms of system-wide risk; top-down</td>
</tr>
</tbody>
</table>

*As defined, the two perspectives are intentionally stylised in order to highlight two orientations that coexist in current prudential frameworks*

Macroprudential Approach to Regulation & Supervision

• **Time dimension**
  - How risk in the financial system as a whole evolves over time and can be amplified by interactions with the real economy
  - **Objective:** Mitigate or dampen procyclicality
  - **Focus:** Put in place various forms of buffers that act countercyclically, thereby also possible restraining the build-up of system-wide risk

• **Cross-sectional dimension**
  - How risk is distributed in the financial system as a whole at a point in time
  - **Objective:** Reduce systemic risk concentrations and common exposures
  - **Focus:** Put in place prudential requirements that take into account the contribution of individual institutions to system-wide risk
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4. Implementation Issues
# Basel III implementation: Phase-in arrangements

(shading indicates transition periods)

<table>
<thead>
<tr>
<th>All dates as of 1 Jan</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>As of 1 January 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage Ratio</td>
<td>Supervisory monitoring</td>
<td>Parallel run 1 Jan 2013 – 1 Jan 2017 Disclosure starts 1 Jan 2015</td>
<td>Migration to Pillar 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Common Equity Capital Ratio</td>
<td>3.5%</td>
<td>4.0%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Conservation Buffer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.625%</td>
</tr>
<tr>
<td>Minimum common equity plus capital conservation buffer</td>
<td>3.5%</td>
<td>4.0%</td>
<td>4.5%</td>
<td>5.125%</td>
<td>5.75%</td>
<td>6.375%</td>
<td>7.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSR, and financials)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>20%</td>
</tr>
<tr>
<td>Minimum Tier 1 Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.5%</td>
</tr>
<tr>
<td>Minimum Total Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8.0%</td>
</tr>
<tr>
<td>Minimum Total Capital plus conservation buffer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8.0%</td>
</tr>
<tr>
<td>Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Phased out over 10 year horizon beginning 2013</td>
</tr>
</tbody>
</table>
The focus on implementation represents a significant new direction for the Basel Committee. The level of scrutiny and transparency applied to the manner in which countries implement the rules the Committee has developed and agreed will help ensure full, timely and consistent implementation of the international minimum requirements.

Mervyn King, former GHOS Chairman and former Governor, Bank of England, 8 January 2012

...the Committee's rigorous peer review process is a clear signal that effective implementation of the Basel standards is a top priority. Raising the resilience of the global banking system, restoring and maintaining market confidence in regulatory ratios, and providing a level playing field will only be achieved through full, timely and consistent implementation.

Stefan Ingves, BCBS Chairman and Governor, Swedish Riksbank, 8 January 2012
Implementation: Two key components

1. **Monitoring** implementation progress
   - Timely adoption of Basel standards (earlier Level 1)
   - Impact assessment through quantitative impact studies (QIS)

2. Jurisdictional and thematic **assessments**
   - Consistency of local regulations (earlier Level 2)
   - Thematic review of actual bank practice (e.g. RWA computation) (earlier Level 3)

**Regulatory Consistency Assessment Program (RCAP)**
The 2014 FSI survey on Basel III implementation* shows good progress...

<table>
<thead>
<tr>
<th></th>
<th>BCBS</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responses/information from jurisdictions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>27</td>
<td>93</td>
<td>120</td>
</tr>
<tr>
<td>2014</td>
<td>27</td>
<td>109**</td>
<td>136</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Basel III</strong>* Implemented/in the process of implementation</th>
<th>BCBS</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>27</td>
<td>52</td>
<td>79</td>
</tr>
<tr>
<td>2014</td>
<td>27</td>
<td>89</td>
<td>116</td>
</tr>
</tbody>
</table>

* Methodology similar to that of the Basel Committee (BCBS) “Level 1” surveys.
** Includes 2013 responses from 18 jurisdictions that did not indicate any changes to their implementation plan in the 2014 survey.
*** A jurisdiction that has implemented or indicated plans to implement at least one component of Basel III is deemed to be in the process of implementation.
...towards comprehensive and timely implementation of Basel III
Jurisdictional assessments

- All BCBS members will undergo an assessment on capital by 2015
  - Focus on gaps between local rules text and Basel standards
  - Other components (e.g. liquidity, G-SIBs) to be progressively assessed
- Following assessments have been completed:
  - June 2014: Canada
  - March 2014: Australia
  - December 2013: Brazil
  - September 2013: China
  - June 2013: Switzerland
  - March 2013: Singapore
  - October 2012: European Union
  - October 2012: Japan
  - October 2012: USA
- India – planned for June 2015
April 2014 BCBS Progress Report:
India- Status of Implementation (position March 2014)

Implementation status -

1) Draft regulation not published
2) Draft regulation published
3) Final rule published
4) Final rule in force

India -

- Basel II and Basel 2.5 – Final Rule in force (4)
- Basel III capital rules – (4) Final rules for the credit valuation adjustment (CVA) issued for implementation from 1 April 2014.
April 2014 BCBS Progress Report:
India- Status of Implementation (position March 2014)

- D-SIBs - (2) Draft framework for dealing with D-SIBs published in December 2013. Final guidelines will be issued shortly.

- G-SIBs- (4) There is no Indian bank in the list of G-SIBs. One Indian bank included in the sample of global banks for identification of G-SIBs has been issued instructions to make disclosures starting from the financial year ended March 31, 2014.

- Liquidity - Draft guidelines issued in February 2012. Final guidelines on LCR are being formulated.

- Leverage Ratio (disclosure requirements) - Guidelines issued in May 2012. Leverage Ratio is monitored quarterly with effect from June 2013 at a minimum of 4.5% on the basis of rules published in Basel III text on December 16, 2010.

- Revised guidelines incorporating amendments to leverage ratio framework and disclosure requirements proposed by the Basel Committee in January 2014 will be issued before December 2014.
Final thoughts....

- Basel III views capital adequacy from several perspectives
  - Several minima
  - Buffers
  - Leverage

- More and better quality capital should contribute to resilience of the banking system

- Supervision is also important.....
An Overview of Basel III

Advanced Program on Basel III
CAFRAL, RBI
Mumbai, India
15-16 July 2014

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