



# Towards a more stable banking system – next steps for the Basel Committee

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Supervision

# Agenda

- About the Basel Committee on Banking Supervision
  - Basel III – a response to the financial crisis
  - Next steps for the Basel Committee
  - How well-equipped are the banks?
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# The Basel Committee

## – bank regulation on a global level



Basel Committee on Banking Supervision



BANK FOR INTERNATIONAL SETTLEMENTS

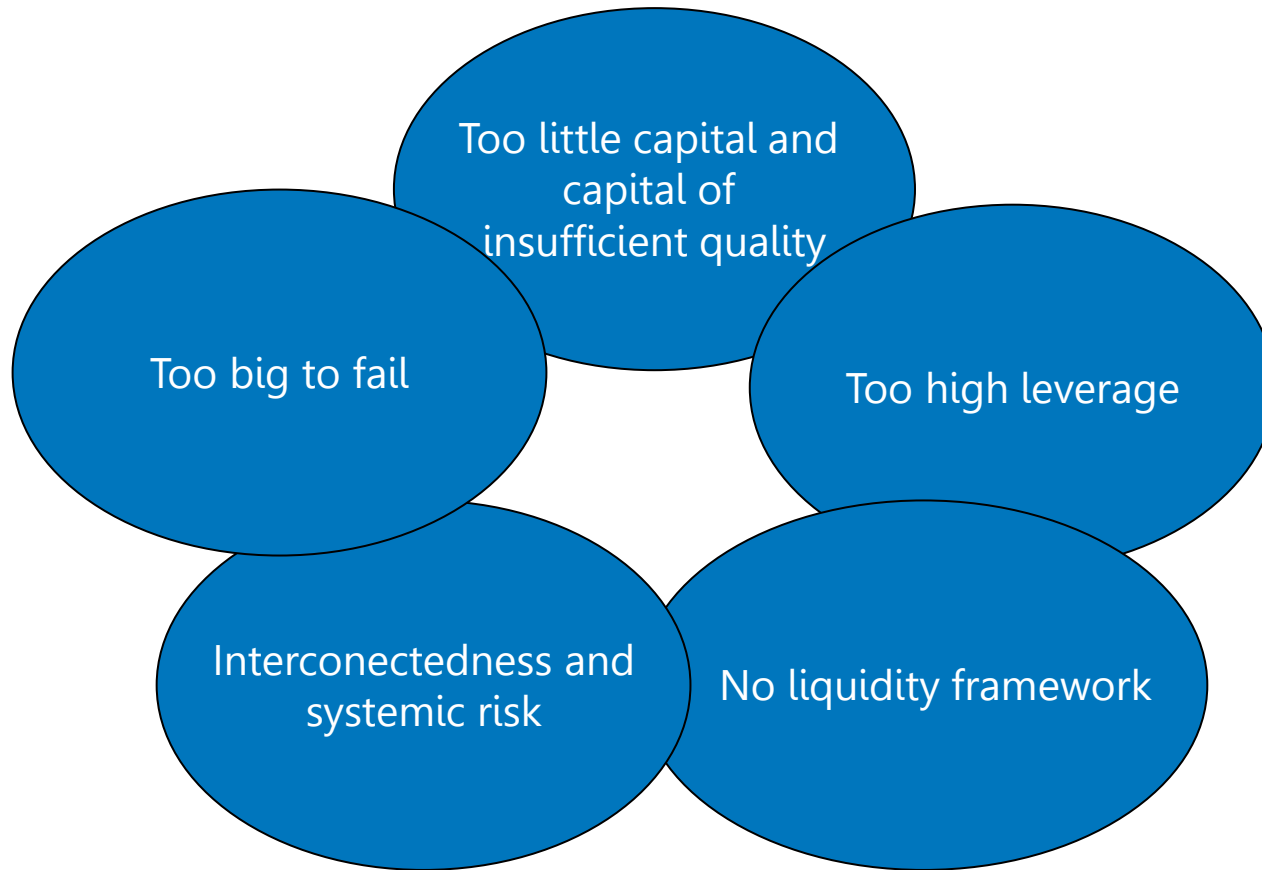
### ■ The Basel Committee

- Global committee consisting of central banks and financial supervisory authorities
- 27 members from all over the world
- Formed in 1975

### ■ Task

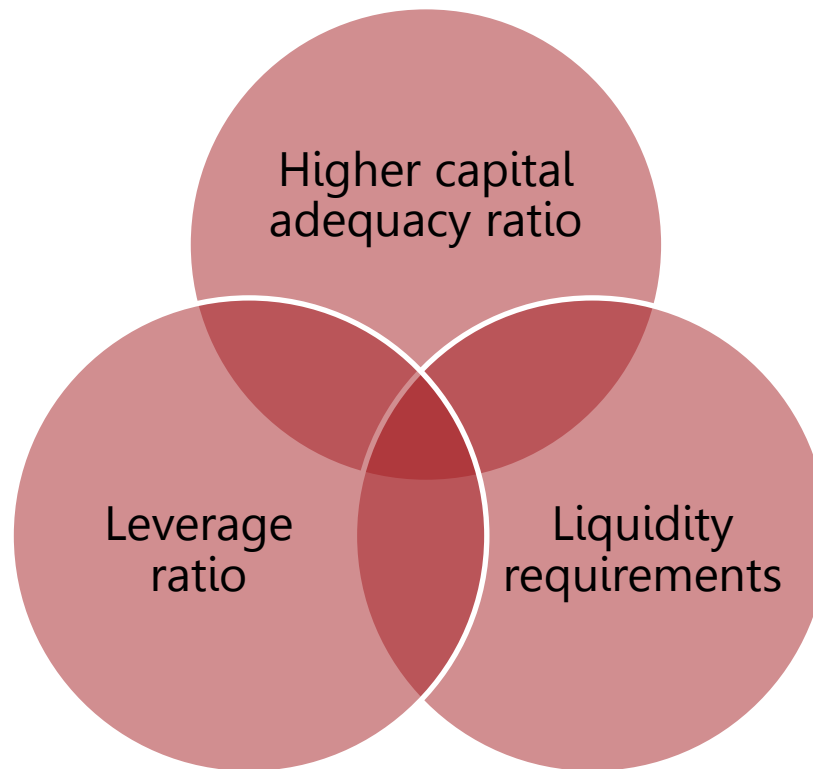
- To produce international standards, guidelines and recommendations for the supervision and regulation of banks
- To promote cooperation between financial supervisory authorities as well as central banks from different jurisdictions

# The financial crisis exposed weaknesses in the global financial system

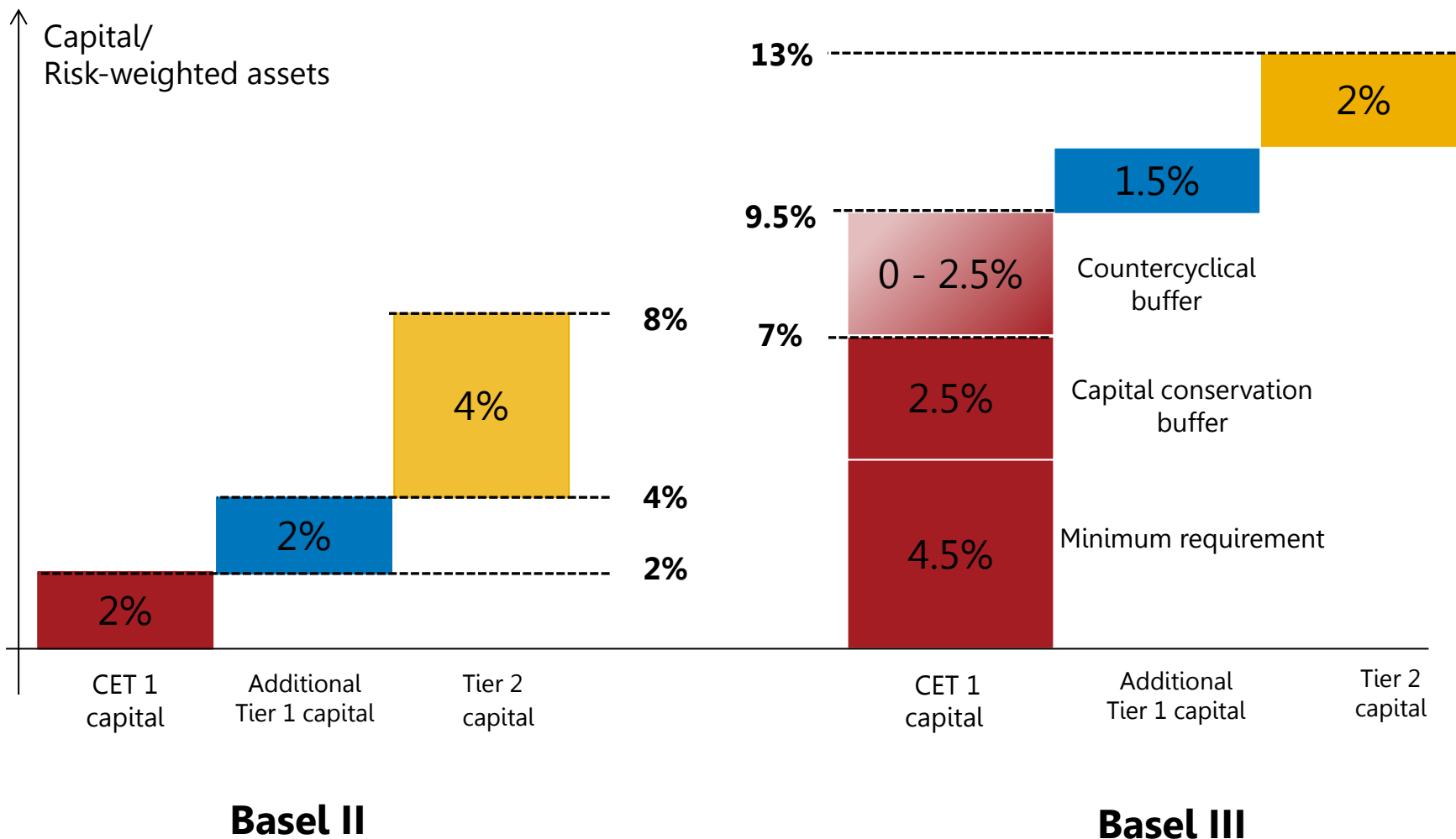


# Basel III – a central part of the response to the financial crisis (G20)

- Goal: to reduce the probability and cost of future banking crises

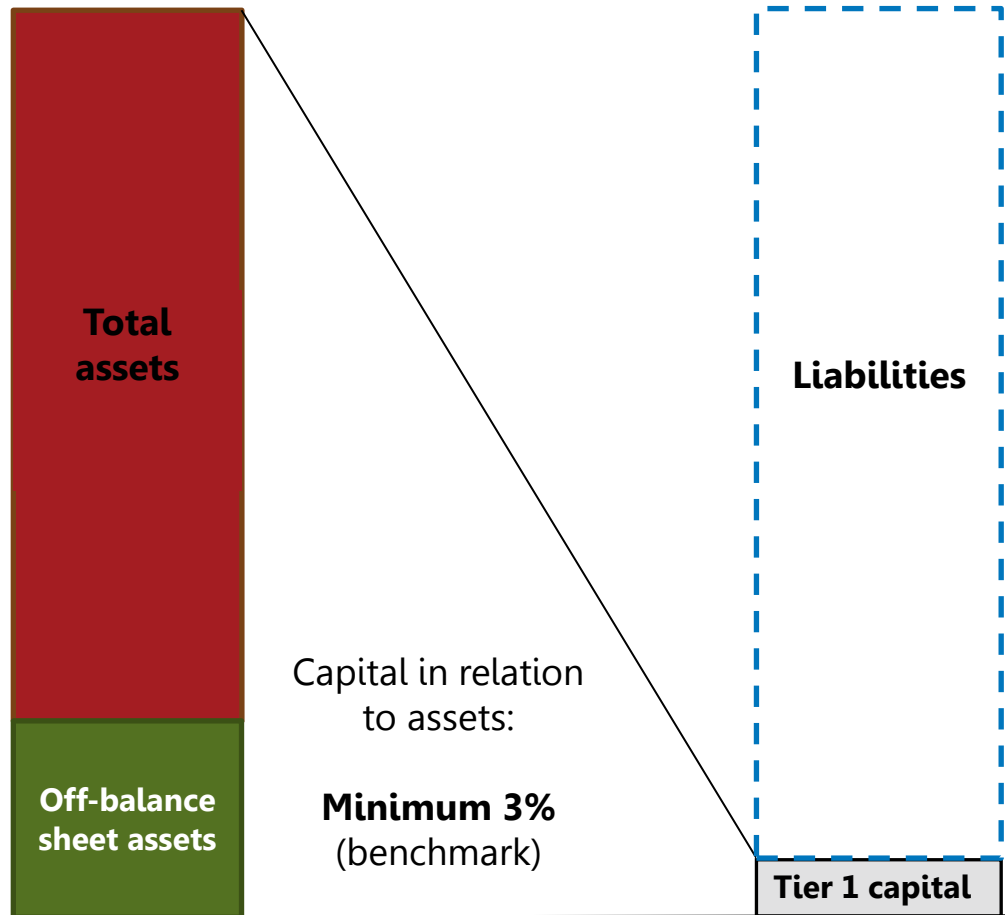


# Requirement of more capital and of better quality



Note. CET1 = Common Equity Tier 1

# Leverage ratio – a non risk-based capital measure



# Requirement of a liquidity buffer to handle short-term liquidity stress (LCR)

- To ensure that banks have a buffer of liquid assets to cover outflows in a short term stressed scenario

$$\text{Liquidity coverage ratio (LCR)} = \frac{\text{Buffer of liquid assets}}{\text{Net cash outflow during a 30 day stressed scenario}} \geq 100 \%$$



# Net Stable Funding Ratio (NSFR) requires more long-term and stable funding

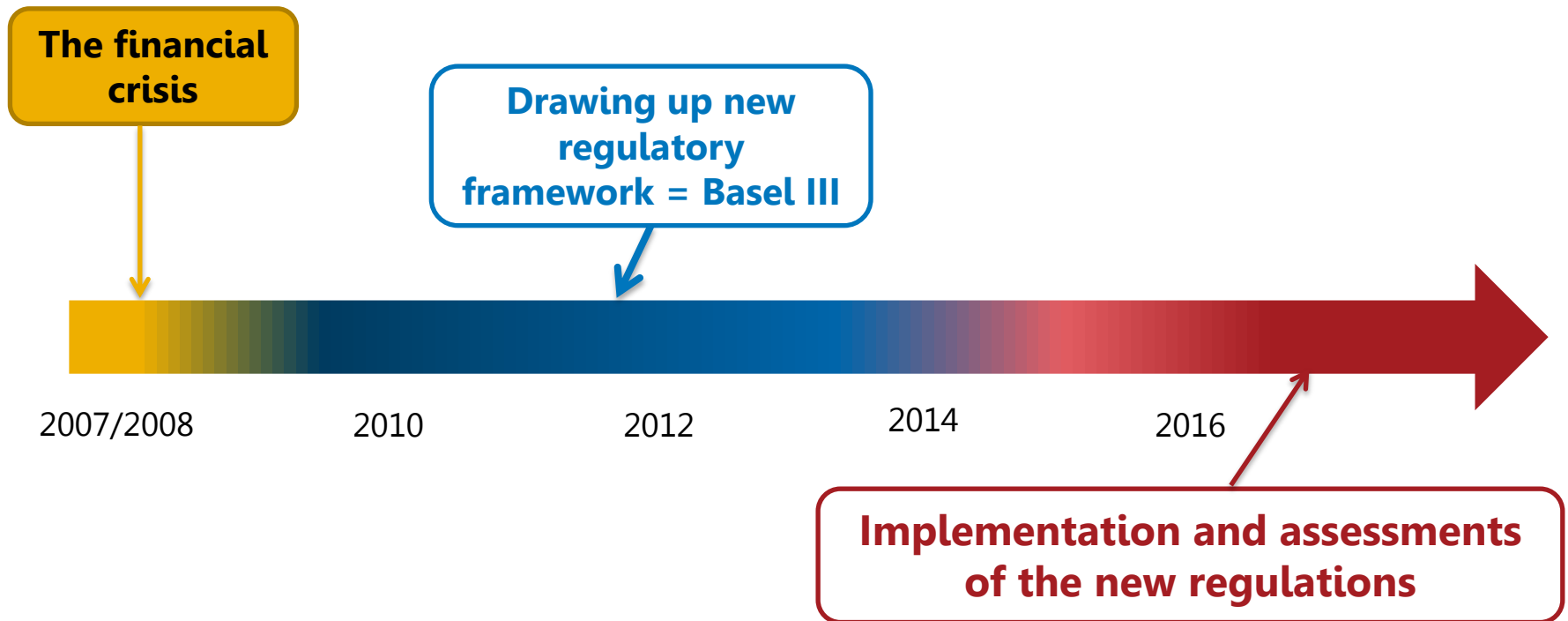
- A structural liquidity measure that limits the use of short-term funding, a measure in the medium term = 1 year

$$\text{Net Stable Funding Ratio (NSFR)} = \frac{\text{Available stable funding (weighted liabilities)}}{\text{Required stable funding (weighted assets)}} \geq 100 \%$$

**Available stable funding** = stable and long-term funding, e.g. capital and long-term bonds





**Required stable funding** = illiquid assets, e.g. mortgages and long-term lending requires more stable funding

# The Basel Committee will change its focus going forward



# Implementation is well under way

- The stricter capital adequacy rules in Basel III have been introduced in all 27 member countries
- LCR will be applied from 2015 at the latest
- Disclosure requirement for the leverage ratio from 2015
- Introduction of the requirements in Sweden:

	-2013	2014	2015	2016	2017	2018	2019
<b>Capital adequacy-rules</b>							
<b>LCR</b>	Sweden's LCR		 EU's LCR				
<b>Leverage ratio</b>			Disclosure				
<b>NSFR</b>							

# The Basel Committee's assessments lead to more consistent implementation

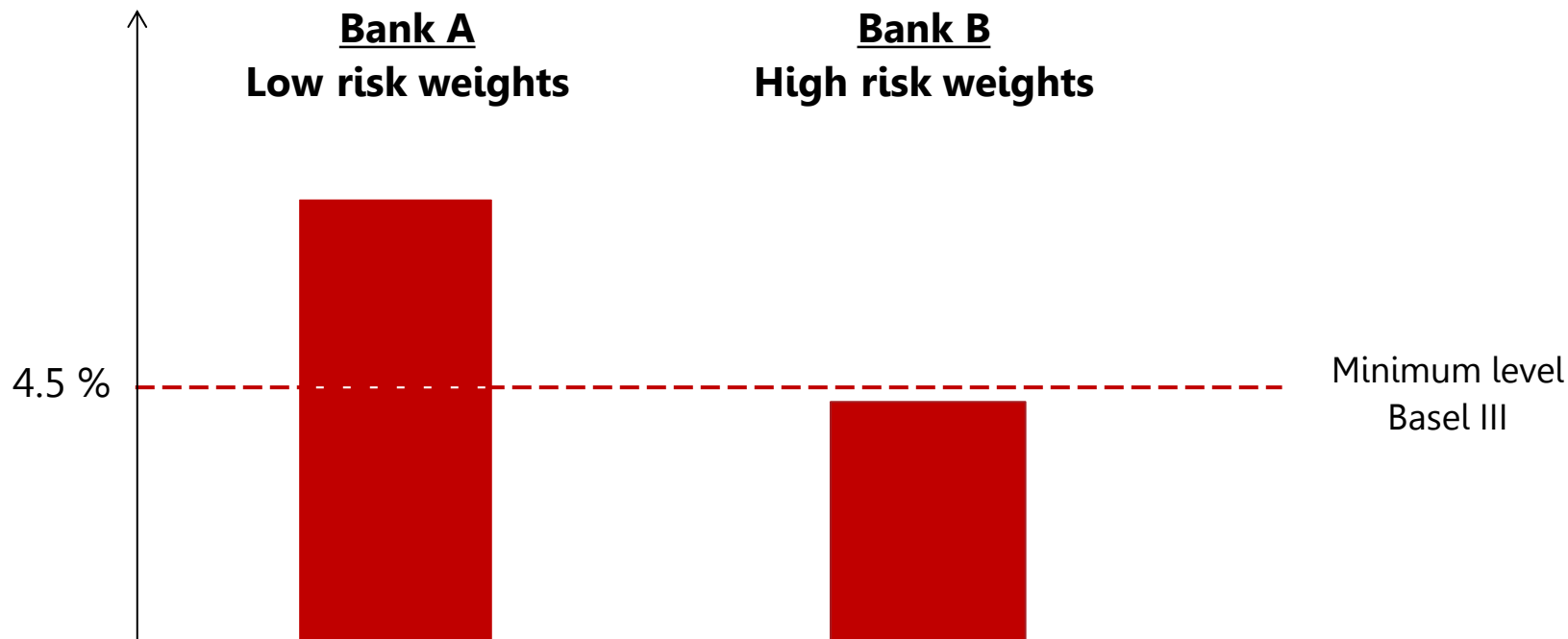


Overview of jurisdictional assessments of Basel III risk-based capital regulations				
Status	Jurisdiction	Publication date of assessment	Number of regulatory changes made/proposed to be made based on the assessment	Overall assessment grade
<b>Completed</b>	Japan	Oct 2012	5	Compliant
	Singapore	March 2013	15	Compliant
	Switzerland	June 2013	22	Compliant
	China	Sept 2013	90	Compliant
	Brazil	Dec 2013	42	Compliant
	Australia	March 2014	14	Compliant
	Canada	June 2014	52	Compliant
<b>In progress</b>	USA	Dec 2014		
	EU	Dec 2014		
	Hong Kong	2015		
	Mexico	2015		

# Increasing confidence in banks' risk weights is an important issue for the Basel Committee

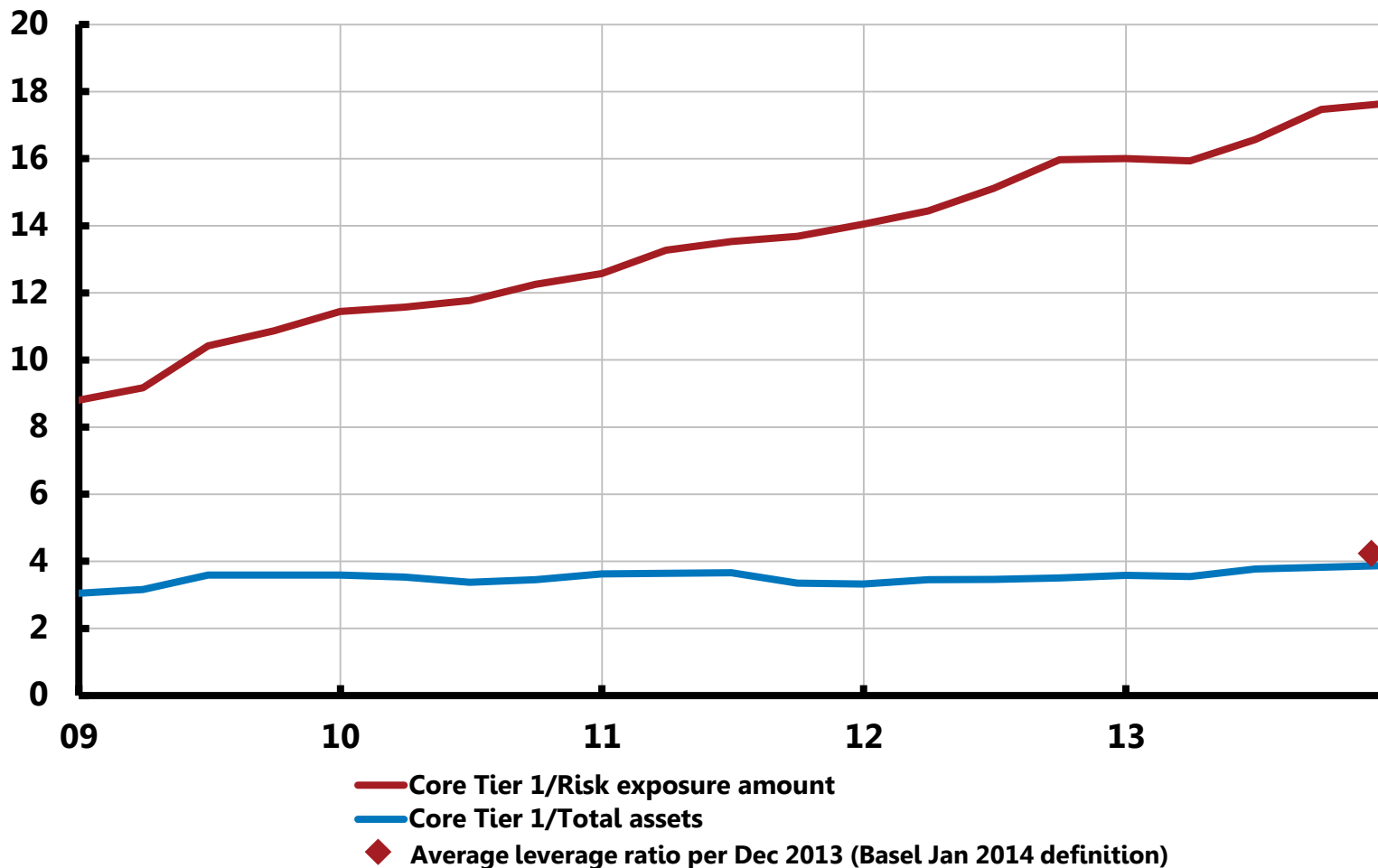
- Example, two banks with the same portfolio and capital, but different ways of calculating risk weights

CET 1 ratio (%)



# The major Swedish banks' capital ratios are increasing but leverage ratios are not following

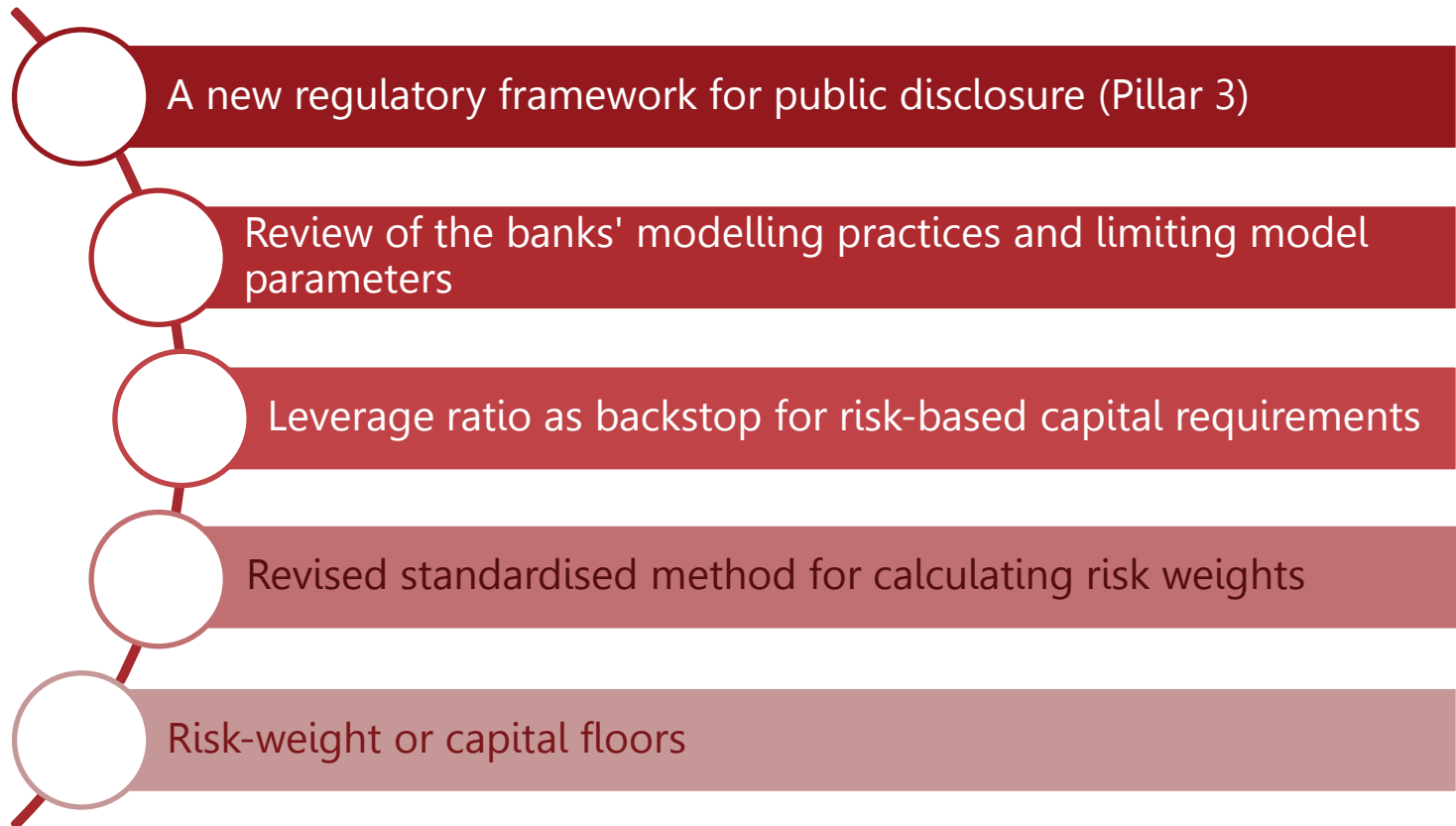
Per cent



Note. Core Tier 1 capital ratios in accordance with Basel II without transitional regulations. Unweighted average.

Source: The Riksbank

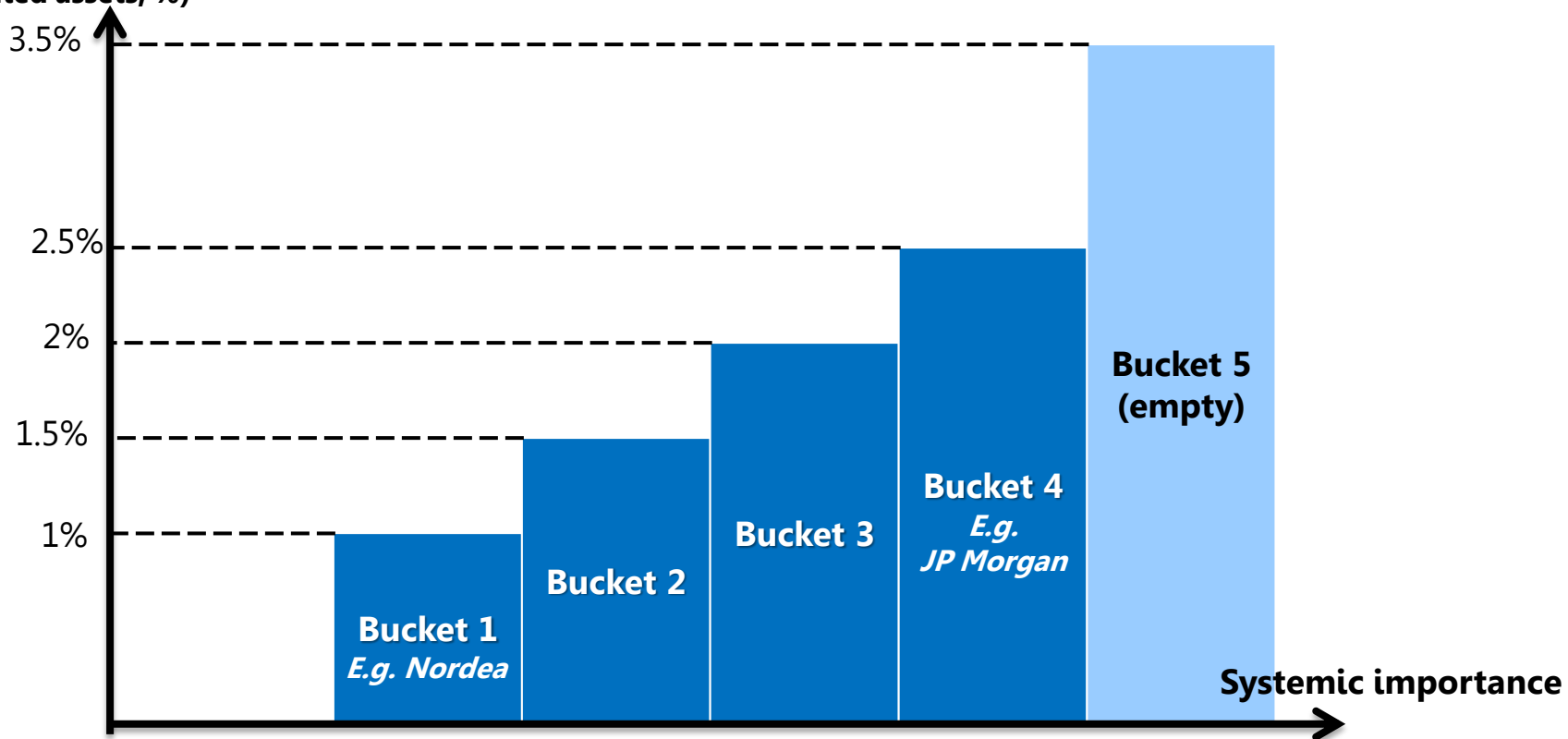
# The Basel Committee is handling the issue of risk weights in several ways



# From 2016, stricter requirements will be introduced for global systemically important banks (G-SIBs)

- Example: distribution of capital add-on based on 2013 list of global systemically-important banks

Add-on: (CET 1/  
risk-weighted assets, %)



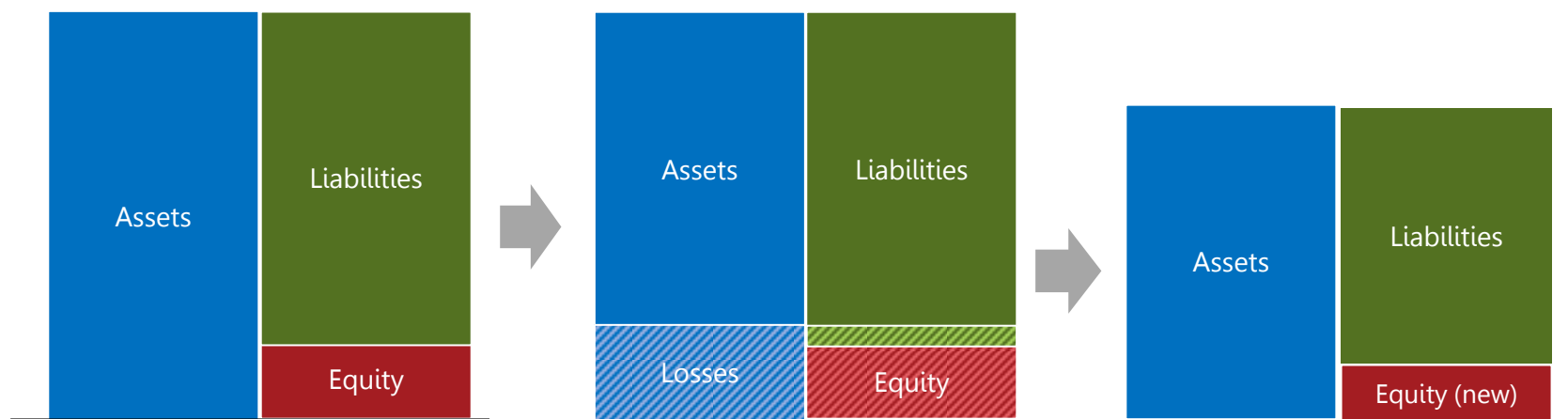
Note. Refers to the list published in 2013, 29 banks were then classed as global systemically-important

Sources: The BIS and the Riksbank

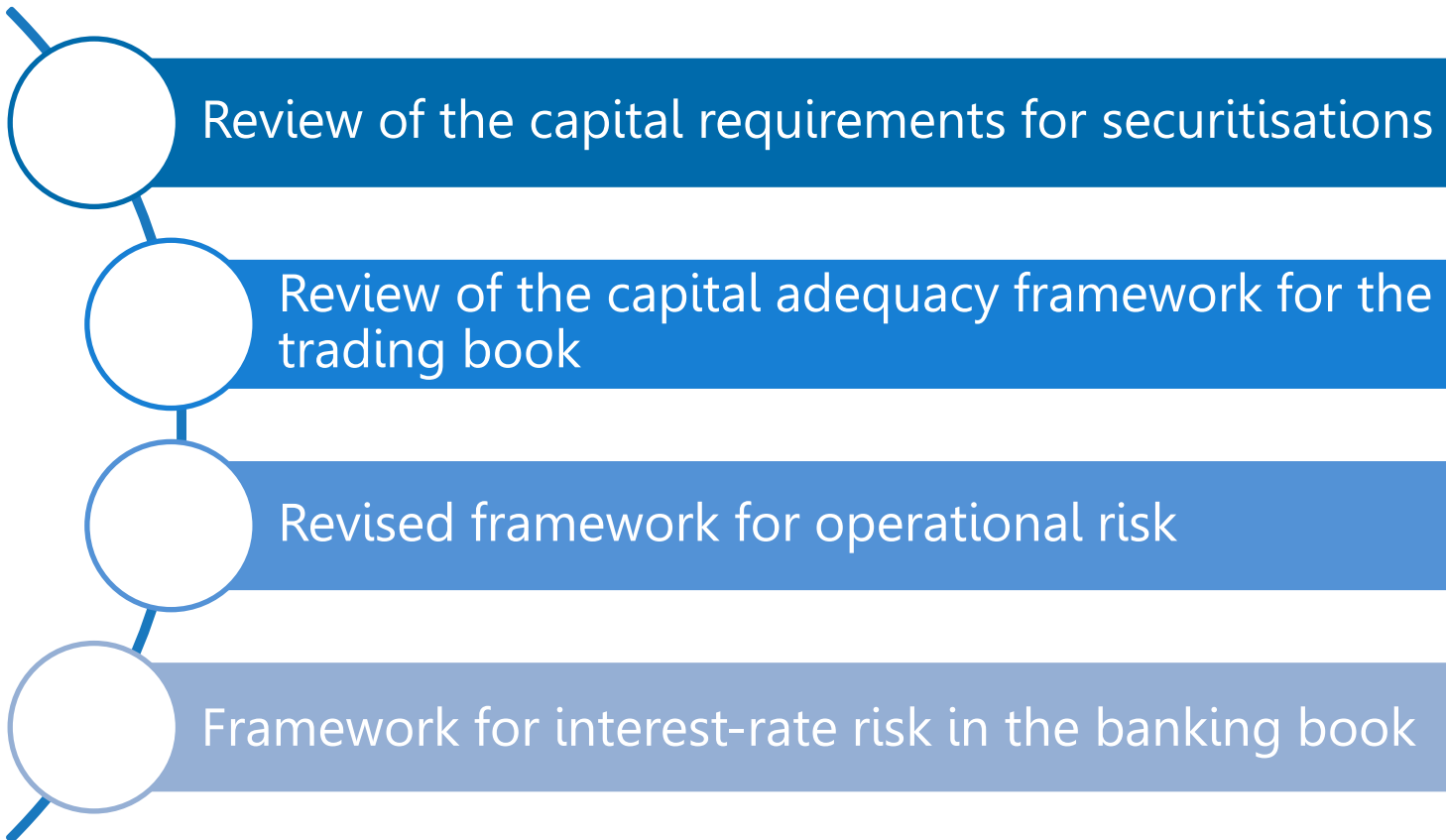


# Discussion about specific requirements for capital that can absorb losses in resolution

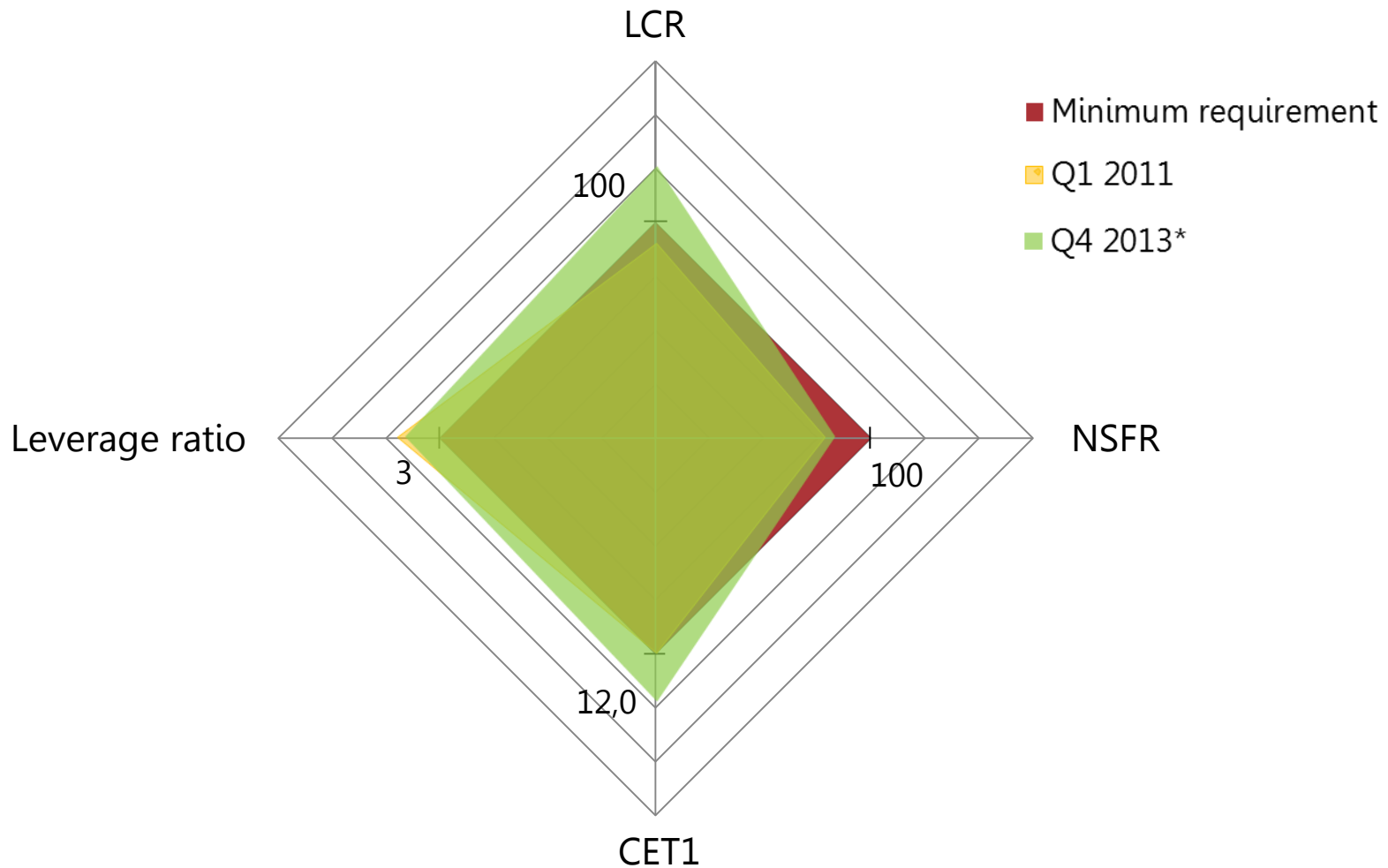
- "Gone-concern Loss-Absorbing Capacity" – GLAC
- Purpose: ensure that global systemically-important banks can absorb losses and cover recapitalisation needs in the case of a resolution without the need to use public funds
  - Form of bail-in



# The Basel Committee also works on strengthening other regulations



# How well-equipped are the Swedish banks?

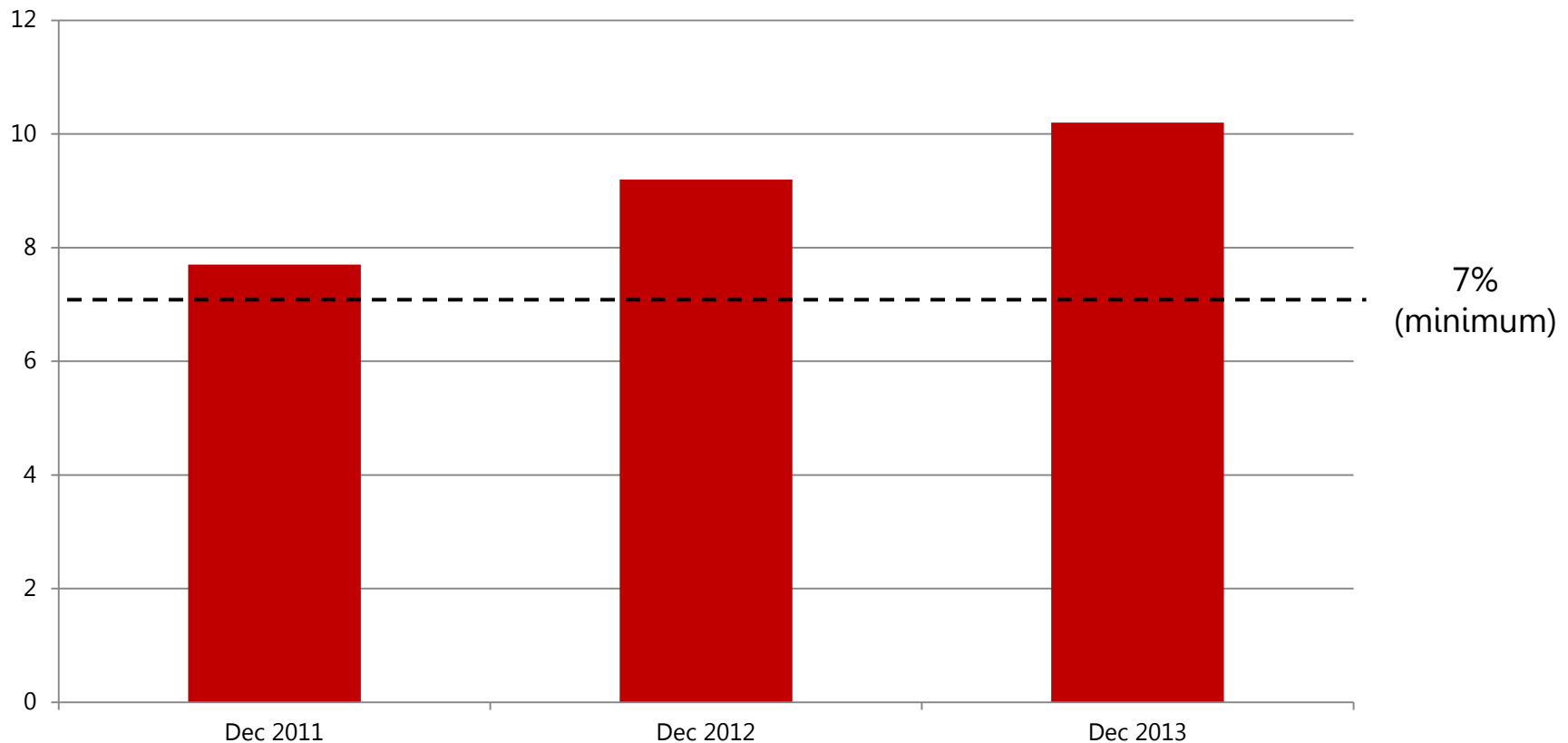


Source: The Riksbank

Note. The positions indicated in the figure show the average Basel III figures for the major Swedish banks. With regard to CET 1, Sweden currently has a higher requirement (of 12%) than the 9.5% required in Basel III if the countercyclical and capital conservation buffers are included.

# The global banking industry is adapting to the new capital requirements

**Average CET 1 ratio for a sample of globally-active banks  
(per cent)**

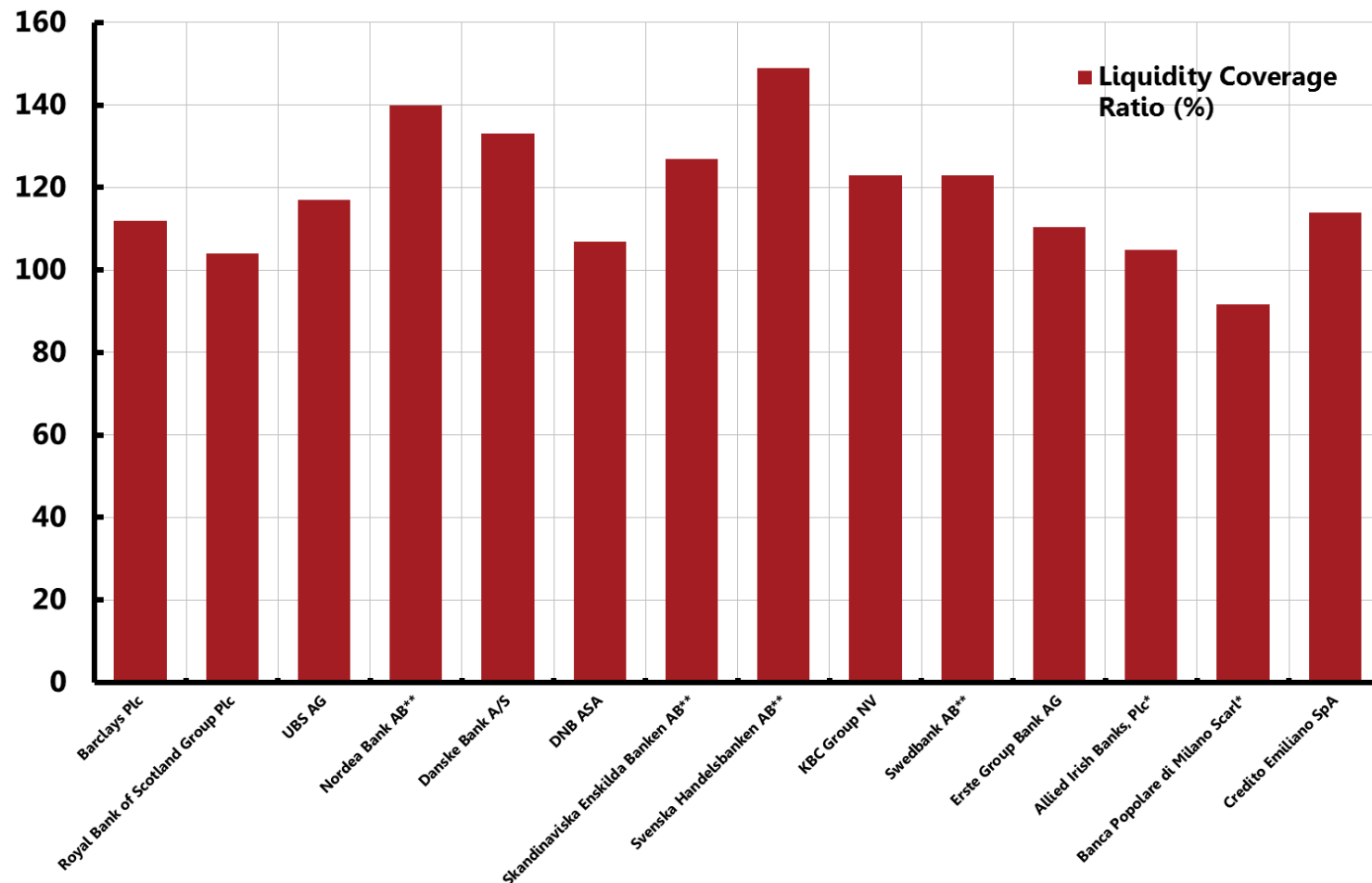


Note: weighted average calculated for so-called group 1 banks that are banks included in the Basel Committee's peer group, have more than EUR 3 billion in Tier 1 capital and have international operations.

Sources: The Riksbank and the BIS

# Several banks already meet and publicly disclose their LCR

LCR, 2nd Quarter 2014



Note: LCR for a sample of banks which disclose their LCR ratio. For banks indicated with a star: \*The LCR number shown is from end-2013.  
\*\*Swedish banks for which the LCR shown is calculated using the Swedish FSA's definition that is slightly stricter than the current Basel definition.

Sources: SNL and the Riksbank

# Summary

- A large part of the regulatory work initiated during the crisis has been completed
    - Basel III imposes stricter requirements on banks' capital and liquidity
  - The Basel Committee is now changing its focus to implementation and assessment of the new frameworks
  - The major Swedish banks have high capital ratios but their leverage ratios are below average and the banks are sensitive to liquidity shocks
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