Basel Committee on Banking Supervision

BANK FOR INTERNATIONAL SETTLEMENTS

Towards a safer and more stable financial system

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Stefan Ingves

Chairman, Basel Committee on Banking Supervision

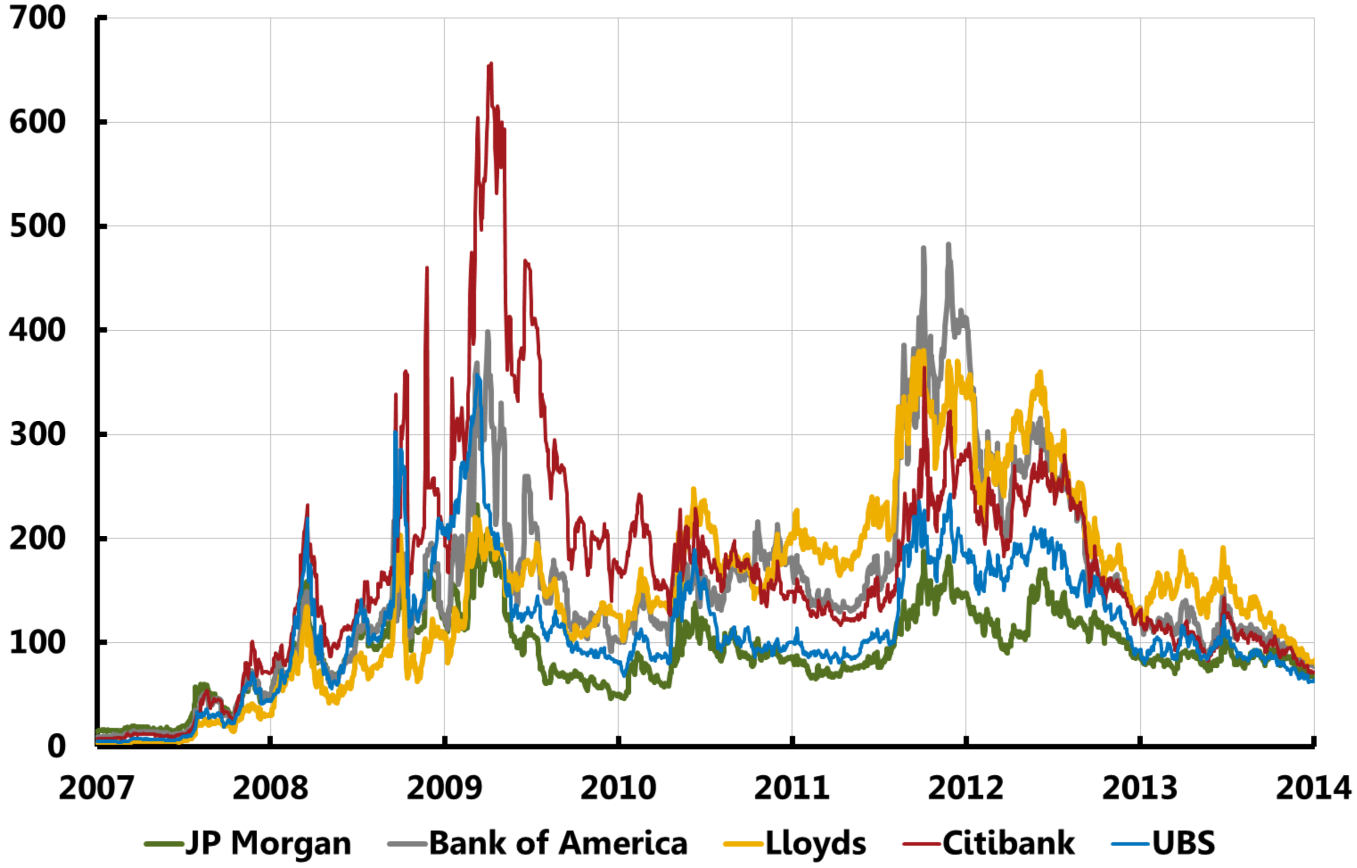
Governor, Sveriges Riksbank

Agenda

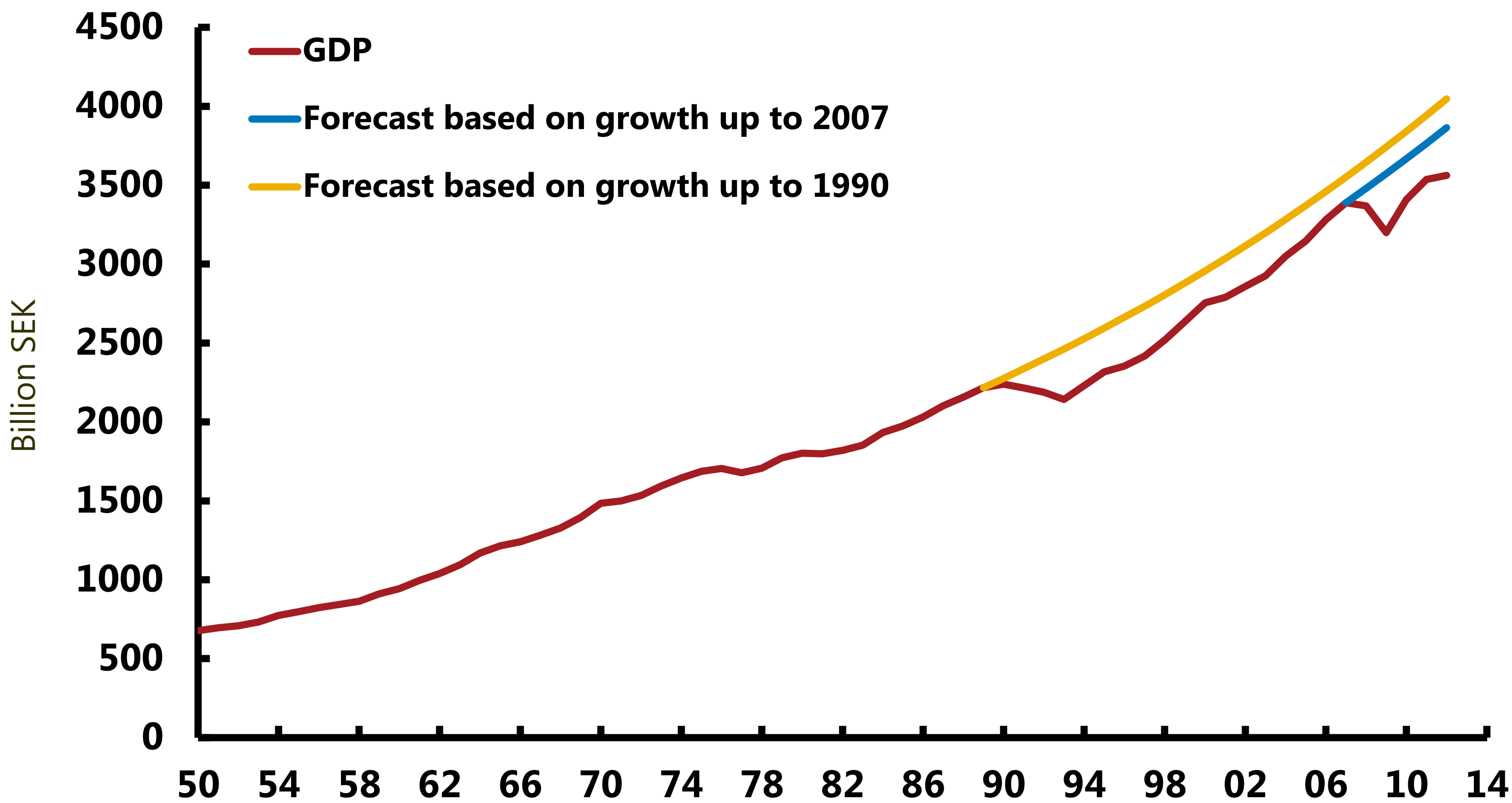
1. Why Basel III?
2. Key accomplishments
3. Remaining work

The financial crisis - a collapse in confidence in the banking system

CDS-premia, 5 year USD senior unsecured for a selection of international banks, basis points

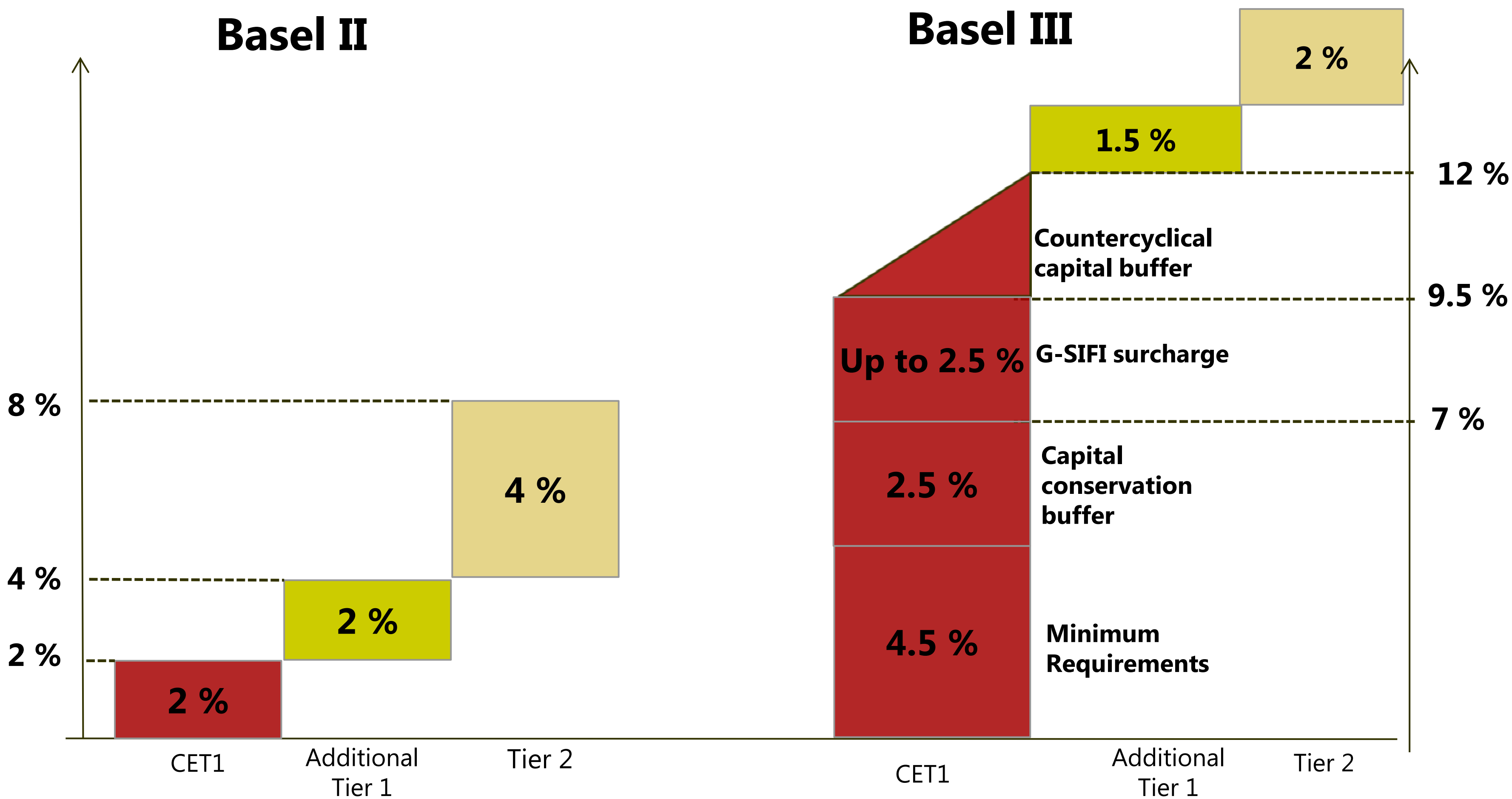


Financial crisis are costly – the Swedish case

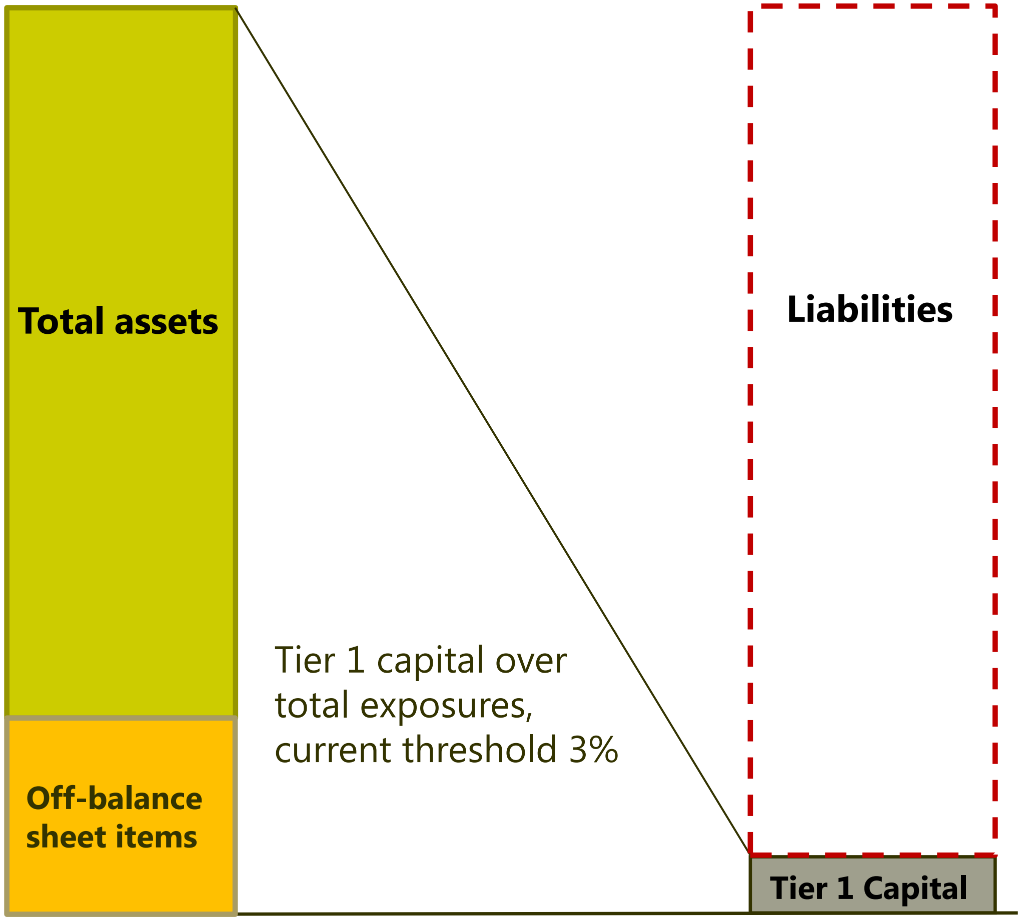


Sources: Statistics Sweden and the Riksbank

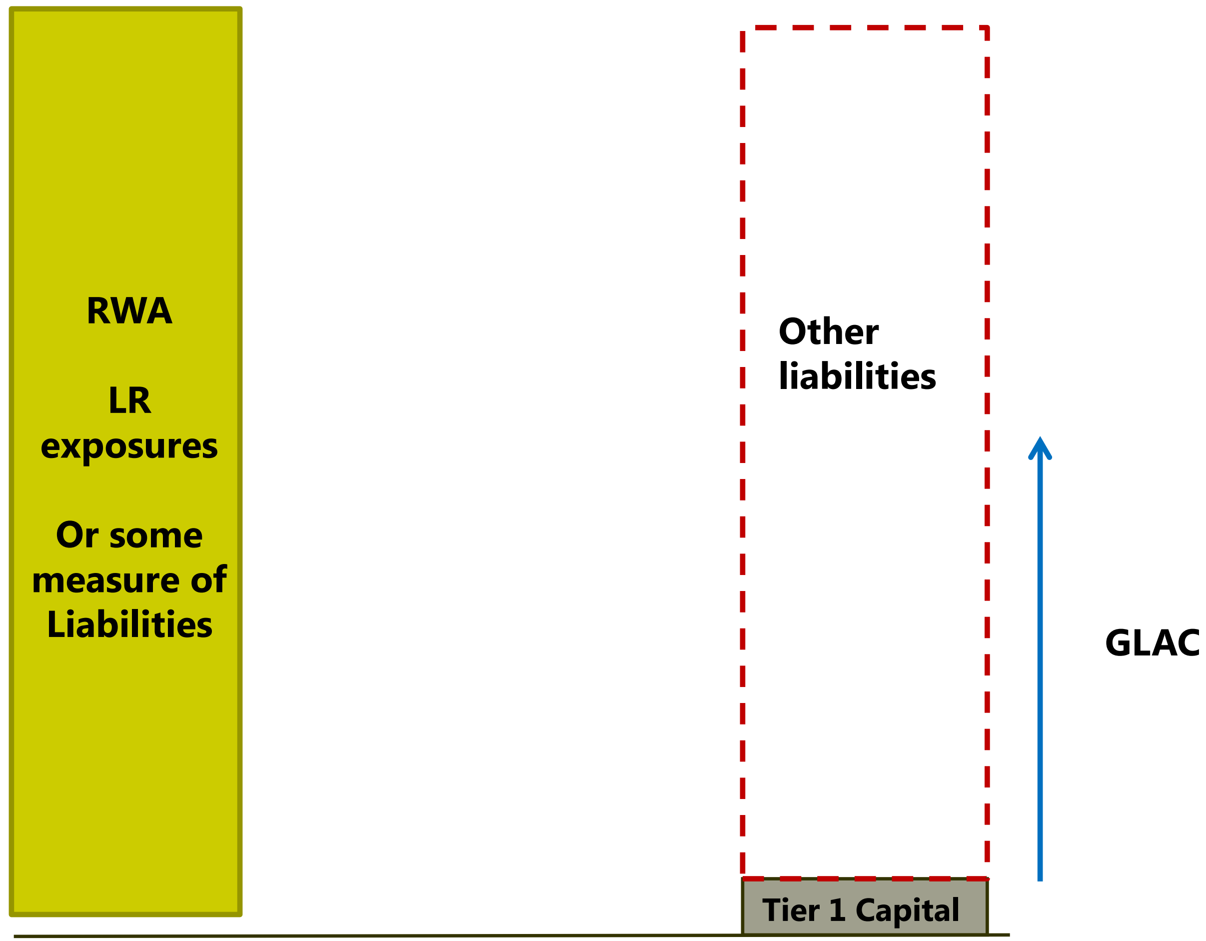
Key accomplishments - more and better quality capital a first step to rebuild confidence



Leverage ratio: backstop to the risk-weighted capital requirement



Gone-concern loss absorbing capacity (GLAC)

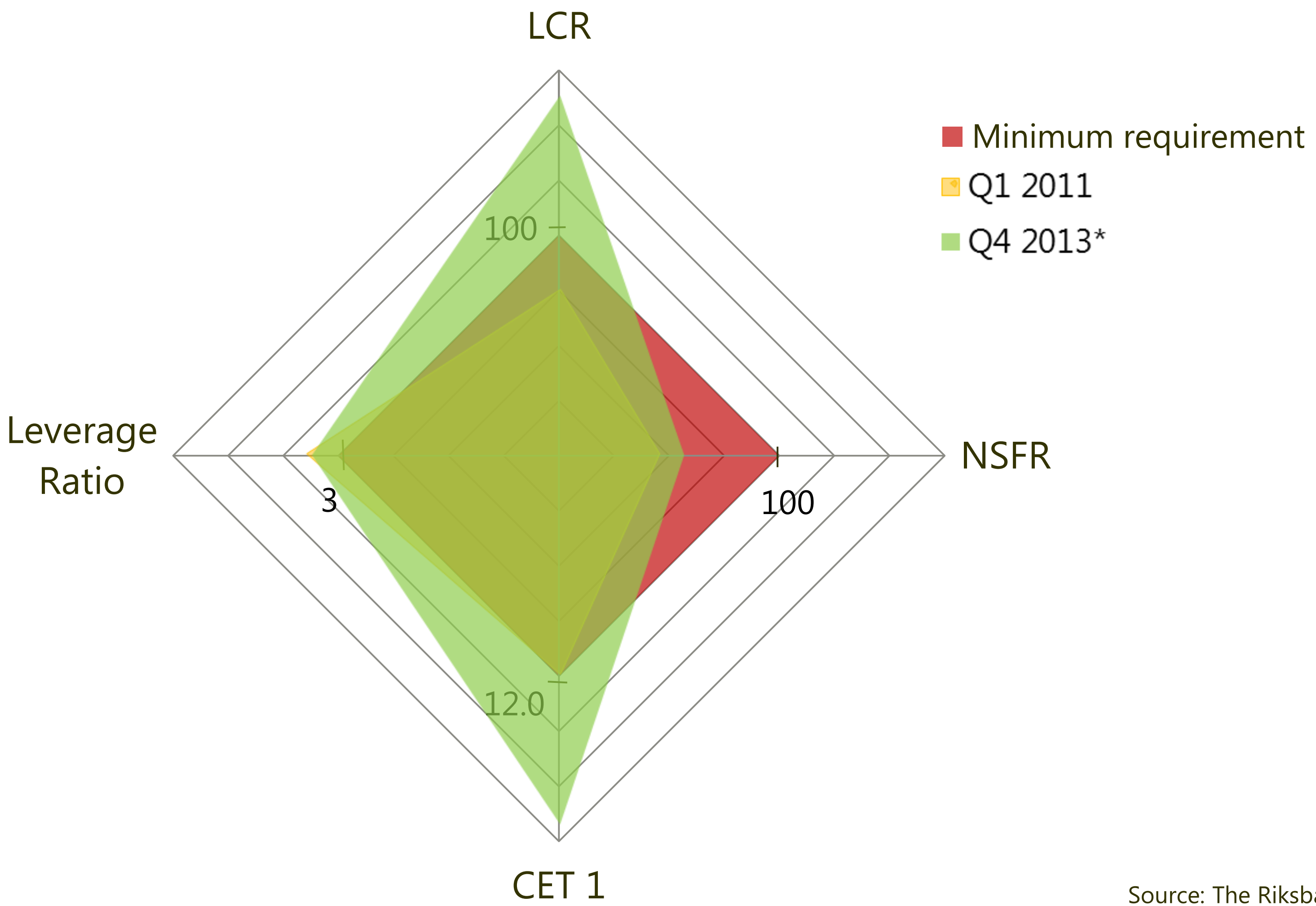


Basel III sets quantitative requirements on liquidity

Short term liquidity	Long term funding
Liquidity Coverage Ratio	**Net Stable Funding Ratio** **To be finalized by end-2014**
$\frac{\text{High quality liquid assets}}{\text{Net cash outflows over a 30 day period}} \geq 100\ \%$	$\frac{\text{Available stable funding}}{\text{Required stable funding}} \geq 100\ \%$

Three additional measures complement the risk-based ratio

Swedish banks' progress towards the new regulatory requirements, Q1 2011 – Q4 2012



Source: The Riksbank

Note: the indicated positions in the diagram shows the average Basel III ratios for the major Swedish banks. Sweden currently has a higher requirement for CET1 at 12%. The Basel CET1 requirement is 9.5%, which includes the countercyclical and capital conservation buffers.

Strengthened supervisory frameworks

- Core principles for effective banking supervision - revised in 2012 to incorporate lessons from the crisis.
  - Highlighted the need for greater supervisory intensity, and the importance of taking pre-emptive actions to address systemic risk.

- Guidance has also been published on
  - Data aggregation principles
  - Supervisory colleges
  - Dealing with weak banks
  - Sound capital planning
  - External and internal audits of banks

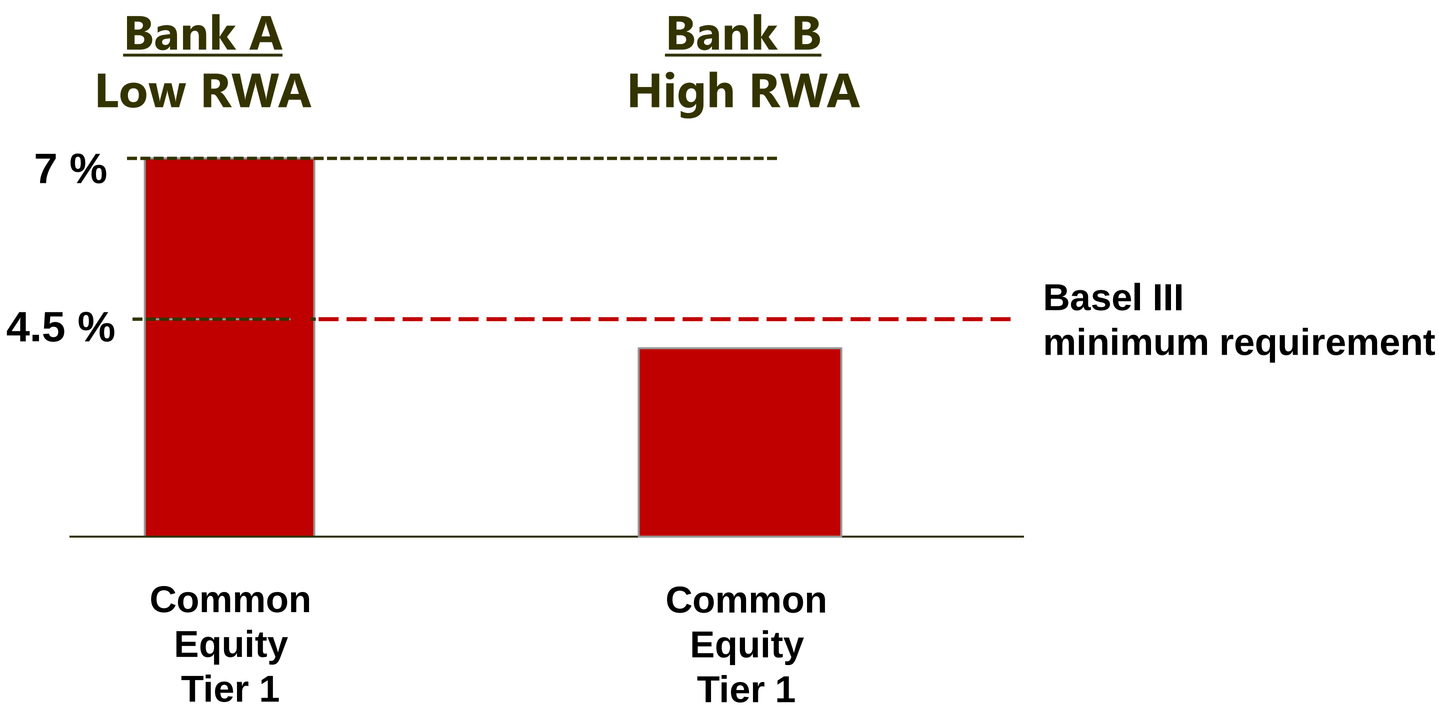
Key regulations in place, but the job is not done!

- The Basel III package and related reforms address the shortcomings that led to the crises

- **But key reforms remain to be finalised**
  - Net stable funding ratio
  - Revisions to the securitisations framework
  - Issues related to gone-concern loss absorbing capital (GLAC)

- **Also regulation only works if consistently implemented**
  - Unacceptably large variations (ie not explained by risk taking) in the calculation of Risk Weighted Assets (RWA), both across a global sample and within the same country.

An illustrative example of the outcome of risk-weighted asset variability



Lack of comparability undermines credibility of capital ratios and hampers recovery of the sector

Implementation is key!

1. Timely adoption of Basel III

2. Consistency of national regulations with the Basel III text

3. Delivery of comparable outcomes (focus on RWA)

RCAP assessments reduce variability in national regulations

Completed	• 7 jurisdictions (Japan, Singapore, Switzerland, China, Brazil, Australia, Canada) • Over 200 rectifications and amendments made
Underway	• 4 jurisdictions – 12 countries • EU (9), US, Mexico and Hong Kong
Planned before end of 2015	• 4 jurisdictions • India, South Africa, Russia and Saudi Arabia
Planned before end of 2016	• Remaining 4 jurisdictions • Argentina, Indonesia, Korea, Turkey

Review of the overall framework

- BCBS plans to assess the capital framework and its effectiveness against the objectives we have set.

- Long term project which the BCSB should do periodically, particularly as implementation matures and banks and markets evolve.

Concluding remarks

- Basel III has targeted the key weaknesses identified by the crisis
  - Quality and level of capital
  - Unstable funding profiles
  - Weaknesses in risk management and supervision
  - Inconsistent global implementation
- We need to finish the job
  - Finalise outstanding regulatory reforms
  - Continue the implementation monitoring
  - Address the problem of unwarranted RWA variability