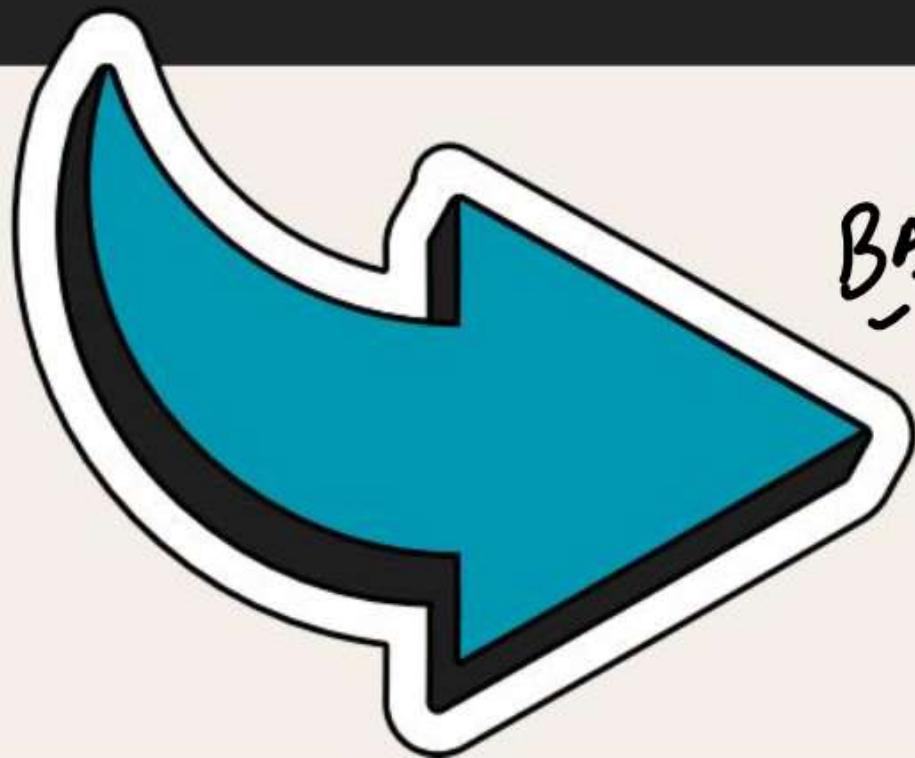


BASEL NORMS



BANKING
SUPERVISION

CRAR, DSIB AND DSII

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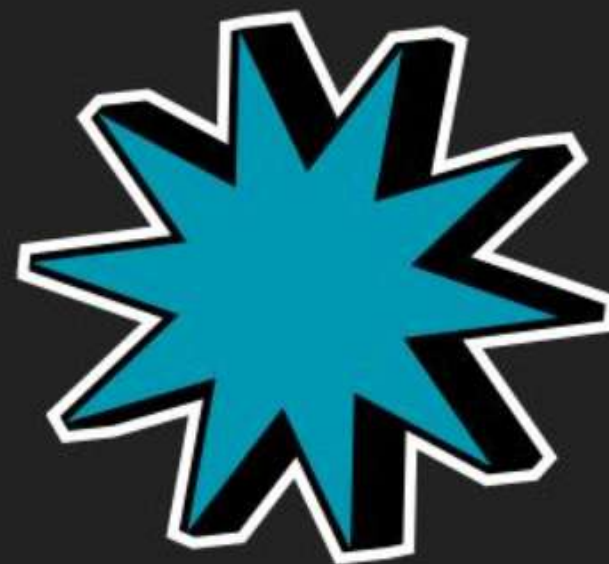
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BASEL NORMS

Basel norms or Basel accords are the international banking regulations issued by the Basel Committee on Banking Supervision.



The Basel norms is an effort to coordinate banking regulations across the globe, with the goal of strengthening the international banking system.

BASEL COMMITTEE ON BANKING SUPERVISION

BCBS
HOCK'S COMMITTEE

It was established by the Central Bank governors of the Group of Ten countries in 1974.

BIS - BANK
FOR
INT'L
SETTLEMENT

The BCBS now has 45 members



It provides a forum for regular cooperation on banking supervisory matters.

The Headquarters are in BASEL CITY, SWITZERLAND.

BASEL 1

- It was introduced in 1988.
- It focused almost entirely on credit risk.
- India adopted Basel-I guidelines in 1999.

RISK
DUE
TO NON-PAYMENT
OF LOANS

BASEL 2

- In 2004, Basel II guidelines were published by BCBS.
- The guidelines were based on three parameters, which the committee calls it as pillars.
- Three Pillars : Capital Adequacy, Supervisory Review

BASEL 3

- In 2010, Basel III guidelines were released.
- These guidelines were introduced in response to the financial crisis of 2008.
- Focus on four vital banking parameters viz. capital, leverage, funding and liquidity.

Basel II

Pillar I

Minimum Capital Reqs

Describes the calculation for regulatory capital for credit, operational and market risk

INTERNAL

Pillar II

Supervisory Review

Bridges the gap between regulatory & economic capital requirements. Gives supervisors discretion to increase regulatory capital requirements

1000CR

1BM

BANK - COM. BANK - 500CR

Pillar III

Market Discipline

Allows market discipline to operate by requiring lenders to publicly provide their risk management activities, risk rating processes and risk distributions

KYC, LGDM, PUBLIC

c

RBI - RATINGS SYSTEM

BASEL - II

C - CAPITAL ADEQUACY

A - ASSET QUALITY

M - MANAGEMENT

E - EARNINGS

L - LIQUIDITY

S - SYSTEM AND CONTROL

228

% - PRIB

AMT

PROFIT

1

SBI

FUND

BANK
RUN

RAMNATHARAM

CO-OP BANK

EARNING

FUND

DEPOSITORS

FUND

1
2
3
4
5

OFFICER YES BS-
@GMAIL.
pandey com

CAR/CRAR

CAR : CAPITAL ADEQUACY RATIO

**CRAR : CAPITAL TO RISK WEIGHTED
ASSETS RATIO**

$$CAR = \frac{\text{TOTAL CAPITAL}}{\text{MIN. CAP. REQ}}$$

$$CRAR = \frac{\text{TOTAL CAPITAL}}{\text{TIER I} + \text{TIER II}}$$

The capital adequacy ratio is a measure to determine the proportion of a bank's capital concerning the bank's total risk-weighted assets.

For example, the risk attached to a loan it is lending to the government is 0%, but the amount of loan lent to individuals is very high in percentage.

**Capital
Adequacy
Ratio
Formula**

=

(Tier 1 Capital + Tier 2 Capital)

Risk Weighted Assets



Tier 1 and tier 2 capital are two types of assets held by banks.

Tier 1 capital is a bank's core capital, which it uses to function on a daily basis.

Tier 2 capital is a bank's supplementary capital, which is held in reserve.

Tier 1 capital is the primary funding source of the bank and consists of shareholders' equity and retained earnings.

Tier 2 capital includes revaluation reserves, hybrid capital instruments and subordinated term debt, general loan-loss reserves, and undisclosed reserves.

Tier 2 capital includes:

- **Undisclosed funds that do not appear on a bank's financial statements**
- **Revaluation reserves**
- **Hybrid capital instruments**
- **Subordinated term debt, also known as junior debt securities**
- **General loan-loss, or uncollected, reserves**

COMPARISON BETWEEN BASEL I & II

Areas of difference	Basel I	Basel II
Basel Accords	Basel I is the older of the Basel Accords	Basel II is the second of the Basel Accords
Year of Implementation	Basel I was initially published in 1988, and was enforced by law in the Group of Ten (G-10) countries in 1992,	Basel II was initially published in June 2004, and was implemented by the year 2008.
Area of focus	Basel I, that is, the 1988 Basel Accord, primarily focused on credit risk.	Basel II focused on three major components of risk that a bank faces: credit risk, operational risk and market risk.

The Principles of Basel III

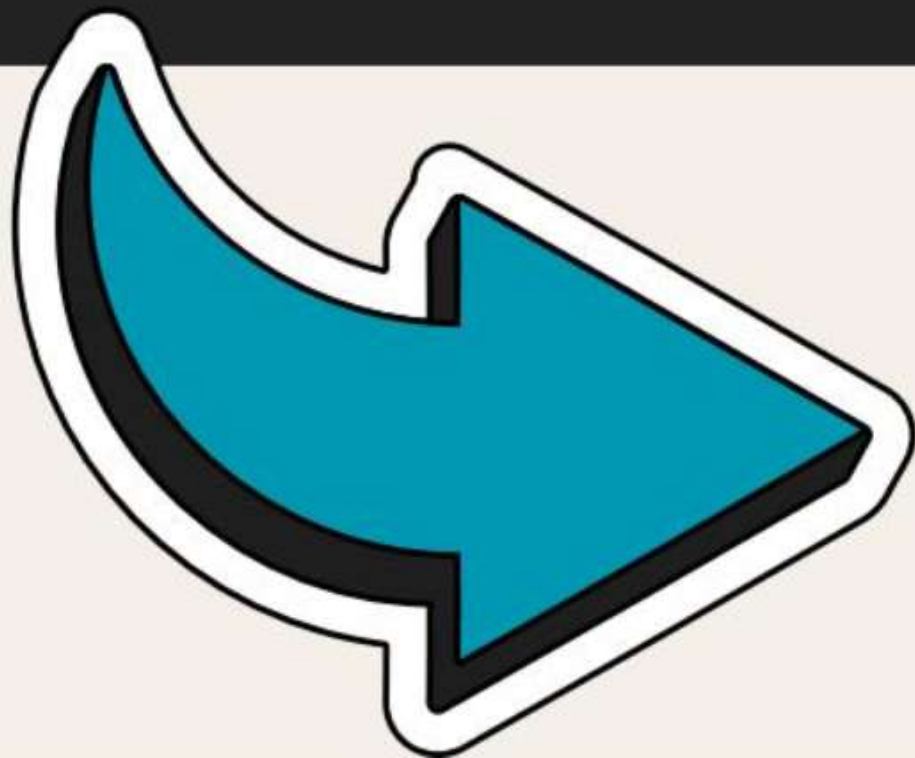
- **The Basel III accord increased the minimum Basel III capital requirements for banks from 2% in Basel II to 4.5% of common equity**
- **There is also an extra 2.5% buffer capital requirement that brings the total minimum requirement to 7%**

The Principles of Basel III

- **Capital Conservation Buffer (CCB):**
- **The CCB is designed to ensure that banks build up capital buffers during normal times (i.e. outside periods of stress) which can be drawn down as losses are incurred during a stressed period.**

Regulatory Capital		As % to RWAs
(i)	Minimum Common Equity Tier 1 Ratio	5.5
(ii)	Capital Conservation Buffer (comprised of Common Equity)	2.5
(iii)	Minimum Common Equity Tier 1 Ratio plus Capital Conservation Buffer [(i)+(ii)]	8.0
(iv)	Additional Tier 1 Capital	1.5
(v)	Minimum Tier 1 Capital Ratio [(i) +(iv)]	7.0
(vi)	Tier 2 Capital	2.0
(vii)	Minimum Total Capital Ratio (MTC) [(v)+(vi)]	9.0
(viii)	Minimum Total Capital Ratio plus Capital Conservation Buffer [(vii)+(ii)]	11.5

BASEL III RATIOS



LEVERAGE RATIO, NSFR, LCR

- **Leverage Ratio**

$$\text{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}}$$

- **Liquidity Coverage Ratio (LCR) :** This ratio ensures enough liquid assets to survive an acute stress scenario lasting for 30 days.
- **The formula for arriving at LCR is given below:**
- **LCR = (Stock of HQLA / Total Net Cash Outflows over the next 30 calendar days) x 100.**

- **The Net Stable Funding Ratio (NSFR):**
- **This ratio aims at promoting medium to long-term structure funding of assets and activities of the Banks.**
- **The objective of NSFR is to ensure that banks maintain a stable funding profile in relation to the composition of their assets**

The list of D-SIBs is as follows:

Bucket	Banks	Additional Common Equity Tier 1 requirement as a percentage of Risk Weighted Assets (RWAs)
5	-	1%
4	State Bank of India*	0.80%
3	-	0.60%
2	HDFC Bank*	0.40%
1	ICICI Bank	0.20%

* The higher D-SIB surcharge for SBI and HDFC Bank will be applicable from April 1, 2025. Hence, up to March 31, 2025, the D-SIB surcharge applicable to SBI and HDFC Bank will be 0.60% and 0.20% respectively.



आपत्काले रक्षिष्यामि
GIC Re



THANK YOU