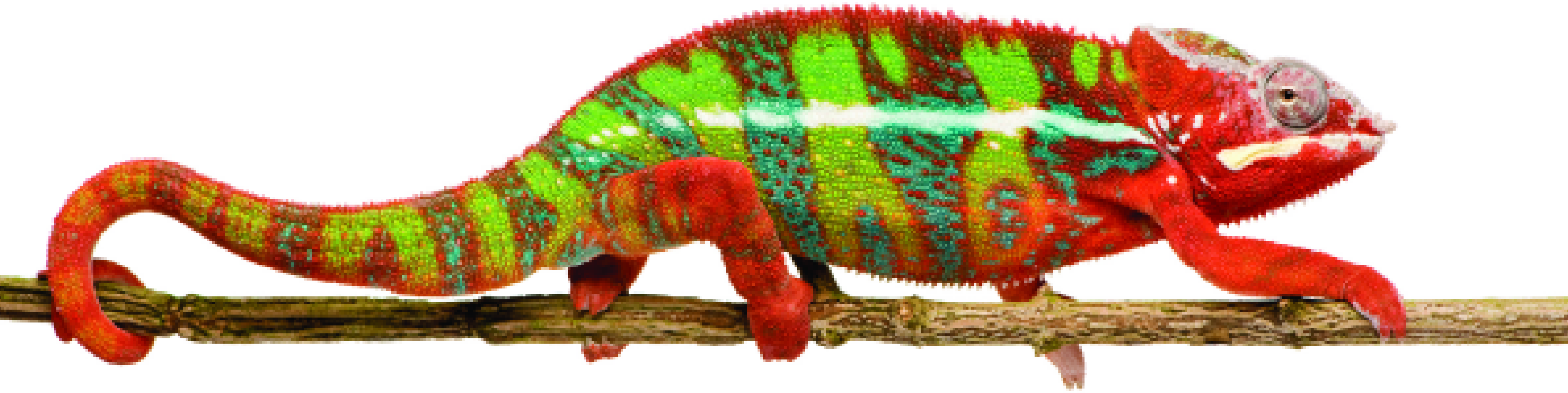
Creeping towards Basel III

TITAN ECONOMIES LAG BEHIND ON IMPLEMENTING LATEST BANK CAPITAL RULES, AS **GRAHAM BUCK** REPORTS.



The world's two most powerful economies are among the laggards in introducing the international bank capital rules outlined in the Basel regulations, according to the latest assessment by the Basel Committee on Banking Supervision.

The committee published its second progress report on Basel III implementation in early April (the first appeared last October). The Basel III regulations, published in December 2010, propose higher capital requirement levels for banks and the introduction of a new global liquidity framework from 2013.

The report tracks progress to date towards the implementation of Basel III, as well as its predecessors Basel II and Basel 2.5, by the committee's 27 members. The US and China are among the back-markers.

The results were compiled at the end of March this year and show that Argentina is the furthest behind. Latin America's second biggest economy is still engaged in "ongoing work to assess the migration from Basel I to the Basel II standardised approach for credit risk", according to the report.

Nor have China, Indonesia, Russia, Turkey or the US fully implemented Basel II yet, even though the rules were released back in 2004 with an original implementation deadline of by the end of 2006. EU member states, as well as Australia, Brazil, India and Japan, are among those to have fully implemented Basel II.

Basel 2.5, agreed in July 2009, subsequently beefed up rules on securitisation-related risks and trading book exposures and was due to be implemented by the end of last year. According to the progress report, six of the committee's members – Argentina, Indonesia, Mexico, Russia, Turkey and the US – have yet to start work on implementation, while China and Saudi Arabia have not yet completed their implementation. Implementation has been completed by other members. Last November, the G20 leaders meeting in Cannes urged those jurisdictions that had yet to fully implement Basel II and Basel 2.5 to do so before the end of the 2011 deadline.

Progress to date on rolling out the Basel III framework is even patchier than the 2.5 experience, with the Middle East and Asia Pacific currently setting the pace. Basel Committee members originally agreed that the regime should be implemented from 1 January 2013, with full application by the start of 2019. However, by the end of March this year Japan and Saudi Arabia were the only two members to have reached the stage of publishing their final implementing laws. Hong Kong has passed a bill to permit implementation but is still consulting on various issues.

Of the other members, 16 countries including EU member states have only issued a draft – the EU's third compromise text (directive and regulation) was published on 28 March.

The remaining eight, which include the US, Russia and South Africa, are not even at the draft issuing stage, although most are scheduled to do so later this year. The slow progress of the US is due, at least in part, to the legacy of new regulations introduced by the Dodd-Frank Act.

Commenting on the latest report, Stefan Ingves, the Basel Committee's chairman and governor of Sweden's central bank, said: "Full, timely and consistent implementation of the new capital standards by internationally active banks is a top priority for the Basel Committee. This will help to restore confidence in regulatory capital ratios and to improve the resilience of the global banking system. Committee members are encouraged to keep up their efforts to ensure that implementation of the Basel III rules can begin, as agreed, from 1 January 2013."

In addition to issuing the progress report, the committee has launched a programme of peer reviews, commencing with the Basel rules adopted by EU countries, Japan and the US. This will assess whether its members' national rules and regulations are consistent with, or significantly differ from, the Basel rules. It says that these consistency reviews will identify any differences that could potentially raise prudential or "level playing field" concerns and has published the methodology used in these assessments.

The committee also began a separate review at the start of this year on the results delivered by national rules to determine whether they are applied consistently across different banks and jurisdictions. The first stage focuses on the calculation of risk-weighted assets in both the banking book and the trading book. Initial findings are expected to be ready before the end of 2012.

A separate report by the European Banking Authority also issued in April suggests that had the Basel III regime been applied last year – instead of being phased in over a six-year period from 2013 – only a minority of Europe's biggest banks would have met its 7% Tier One capital requirement.

According to the regulator, based on the June 2011 balance sheets of Europe's 48 biggest banks, as many as 27 would have fallen short of the core Tier One capital figure of 7% of assets required under Basel III, with a collective total shortfall of €242bn. The figure was only a marginal improvement on a similar exercise based on 2009 data, which showed an overall shortfall of €263bn.

The EBA reported that 10 of the 48 banks assessed would have had core capital of less than 4.5%.

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Where they stand: Basel III adoption at end of Q1 2012

- **Argentina**: Nothing yet published; ongoing work to draft preliminary documents.
- **Australia**: Draft rules for capital requirements issued 30 March. Draft rules to implement liquidity requirements issued November 2011 – public consultation ended 17 February.
- **Brazil**: Draft regulation published 17 February for public consultation.
- **Canada**: In February 2011, banks were directed to meet the 7% core Tier One capital requirement from January 2013. Regulations for non-viability contingent capital published August 2011 and transitioning for non-qualifying instruments October 2011. Draft regulations for definition of capital and counterparty credit risk issued to banks in March 2012.
- **China**: Draft regulation combines Basel II, Basel 2.5 and Basel III. Public consultation ended in 2011. Final regulation expected to come into force Q3 2012 and will apply to all banking institutions.
- **EU**: Third compromise text (directive and regulation) published by the Danish presidency on 28 March.
- **Hong Kong**: Bill passed by Legislative Council on 29 February and published for granting rule-making powers to implement Basel III. Industry consultation under way on policy proposals for inclusion in rules. Consultation on draft text of rules scheduled for H2 2012.
- **India**: Draft regulation released for comments on 30 December 2011.
- **Indonesia**: Draft regulation to be released for consultation with industry in Q2 2012.
- **Japan**: Draft regulation published 7 February. Final regulation published 30 March and will be implemented from the end of March 2013.
- **Korea**: Draft regulations due before the end of H1 2012.
- **Mexico**: Draft regulations not yet published, but final regulation expected in Q2 2012.
- **Russia**: Draft regulations still being developed.
- **Saudi Arabia**: Final regulation issued to banks.
- **Singapore**: Draft regulations issued and public consultation ran to February 2012. Final regulation due to be published mid-2012.
- **South Africa**: Draft regulations not yet published, but draft amendments to legislation issued 30 March for consultation.
- **Switzerland**: Draft regulations issued and public consultation ran to January 2012. Decisions on final regulation text expected mid-2012.
- **Turkey**: Draft regulations expected to be published mid-2012.