AN OVERVIEW OF THE BASEL ACCORDS

THE CHALLENGES
FOR BANKS AND FINANCIAL INSTITUTIONS

1. Have consistent banking operations
2. To remove unfair competition between banks and FIs
3. To mitigate the risks defined by the accord
4. Have a fair liquidity and credit risk
5. Absorb shocks in economy
6. To deal with volatile market

1st
Basel Accord
(1998)

THE FIRST BASEL ACCORD 1998
– NEW PROSPECTS & THE LIMITATIONS

THE ACCORD PEGS THE TOTAL CAPITAL TO BE 8% OF BANK'S CREDIT RISK

- Static measure of default risk
- No recognition of term-structure of credit risk
- Simplified calculation of future counterparty risk
- Lack of recognition of portfolio diversification effects

LIMITATIONS OF THE ACCORD

2nd
Basel Accord
(2004)

THE SECOND BASEL ACCORD 2004
– IMPROVISATIONS & THE WAY FORWARD

- TO ENSURE THE LIQUIDITY OF BANKS
- REQUIRED BANKS TO HOLD 2% OF COMMON EQUITY AND 4% OF TIER 1 CAPITAL
- ATTEMPTED TO STOP UNFAIR COMPETITIVE ADVANTAGE

- The regulations were not popular
- Banks believed self-regulation would be more effective
- Seen by some as being overly dogmatic
- Simultaneously incomplete, leading to a concern

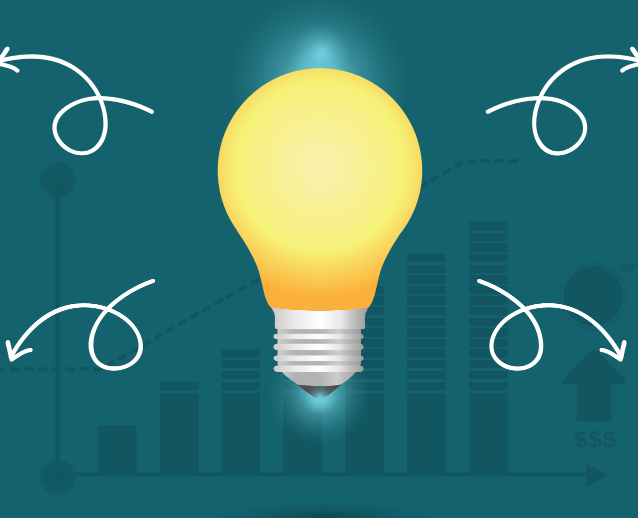
LIMITATIONS OF THE ACCORD

3rd
Basel Accord
(2008)

THE THIRD BASEL ACCORD 2008
– NEW POSSIBILITIES & THE BETTER NORMS

Increasing common equity requirements to **4.5%**

Increasing Tier 1 capital requirements to **6%**



Introducing a minimum leverage ratio of **3%**

Introducing two required liquidity ratios **LCR AND NSFR**

CONCLUSION

1. The Basel III Accord saw the participation of over 100 countries
2. Accepted by most banks and FIs
3. Basel II will cease to exist after Basel III is implemented
4. Basel III to be implemented by 2019
5. Implementation taking time because of complexity
6. Some banks and FIs still implemented accords I and II
7. Technology seen as a key enabler for implementation
8. IT spend pegged to rise by 2% every year