



# Regulatory response: Basel III & strengthened financial supervision

Banco de Portugal  
9 March, 2012

Governor Stefan Ingves



# Overview

- Addressing lessons of the financial crisis
    - Revised Core Principles
    - Basel III
    - Strengthening supervision
  - Implementation of rules
  - Outreach
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# Key drivers of reform

- Deep financial and economic crisis
- Global economic imbalances and excess global liquidity
- Poor credit underwriting standards
- Weak banks unable to absorb shock
- Global contagion
- Memories tend to be short – need for fast action



# The Basel Committee reacted fast...



with a focus on its most important standards

- Basel III
- Core Principles for Effective Banking Supervision





# Core Principles

- Key changes:
    1. clarify the role of supervisors and what they expect banks to do
    2. strengthen supervisory practices and risk management
    3. Introducing a system-wide, macro perspective to the microprudential supervision of banks
  - Currently out for consultation
  - The plan is to finalise the revisions by summer 2012
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# Basel III: its main components

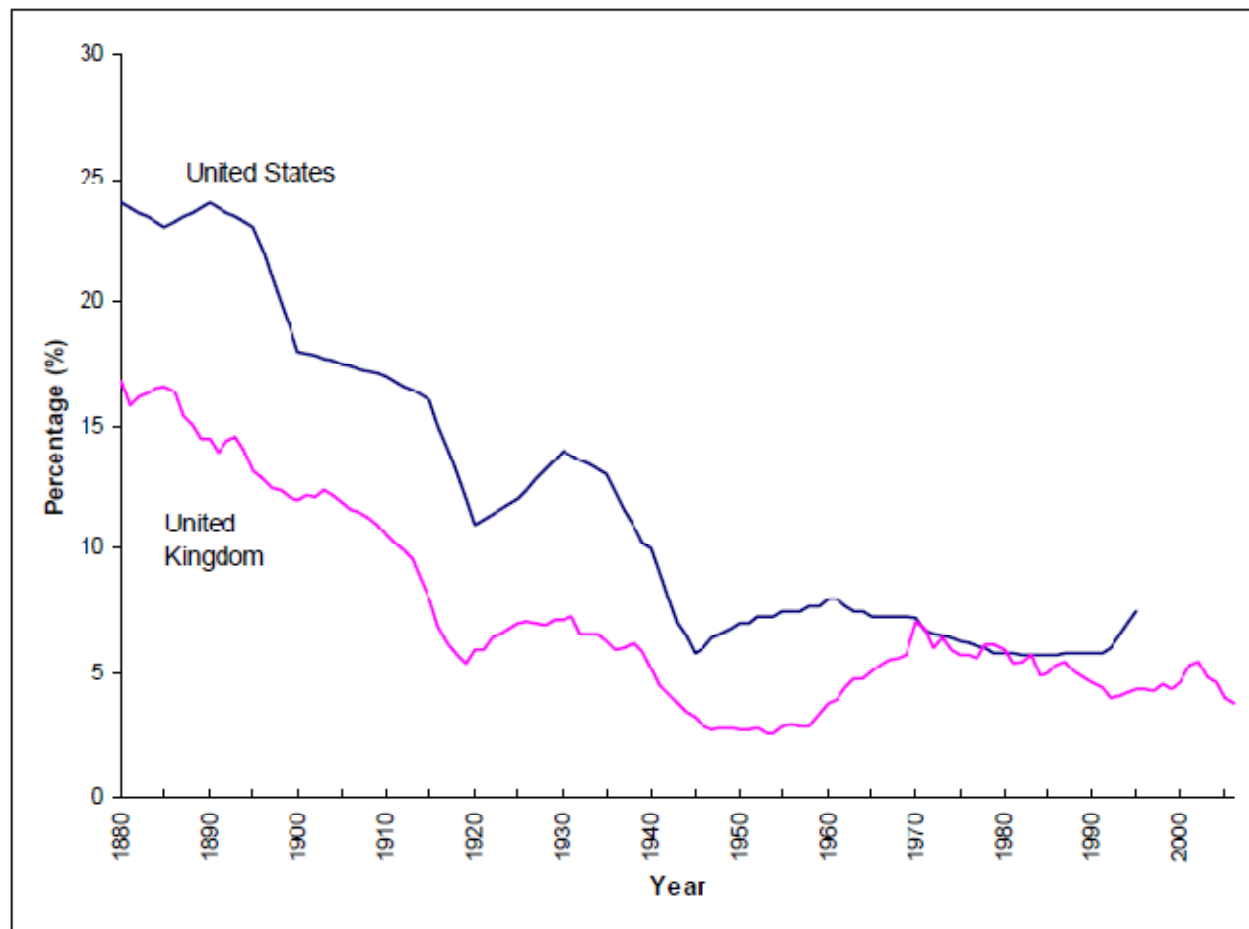
- Improved risk coverage and risk management
  - More capital of higher quality
  - Capital buffers (rules on sanctions – new)
  - Liquidity requirements (for the first time)
  - Systemically important banks
  - Leverage ratio
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# Improved risk management

- Corporate governance (the fish stinks from its head)
  - Sound capital assessment (we set minimum requirements)
  - Comprehensive assessment of risks (there are more risks than addressed in Basel III, e.g. interest rate risk and reputational risk)
  - Risk concentrations (BCBS addressing large exposures)
  - Stress testing (banks and supervisors should be imaginative)
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# Capital, is this the right direction?



Common shares /total assets

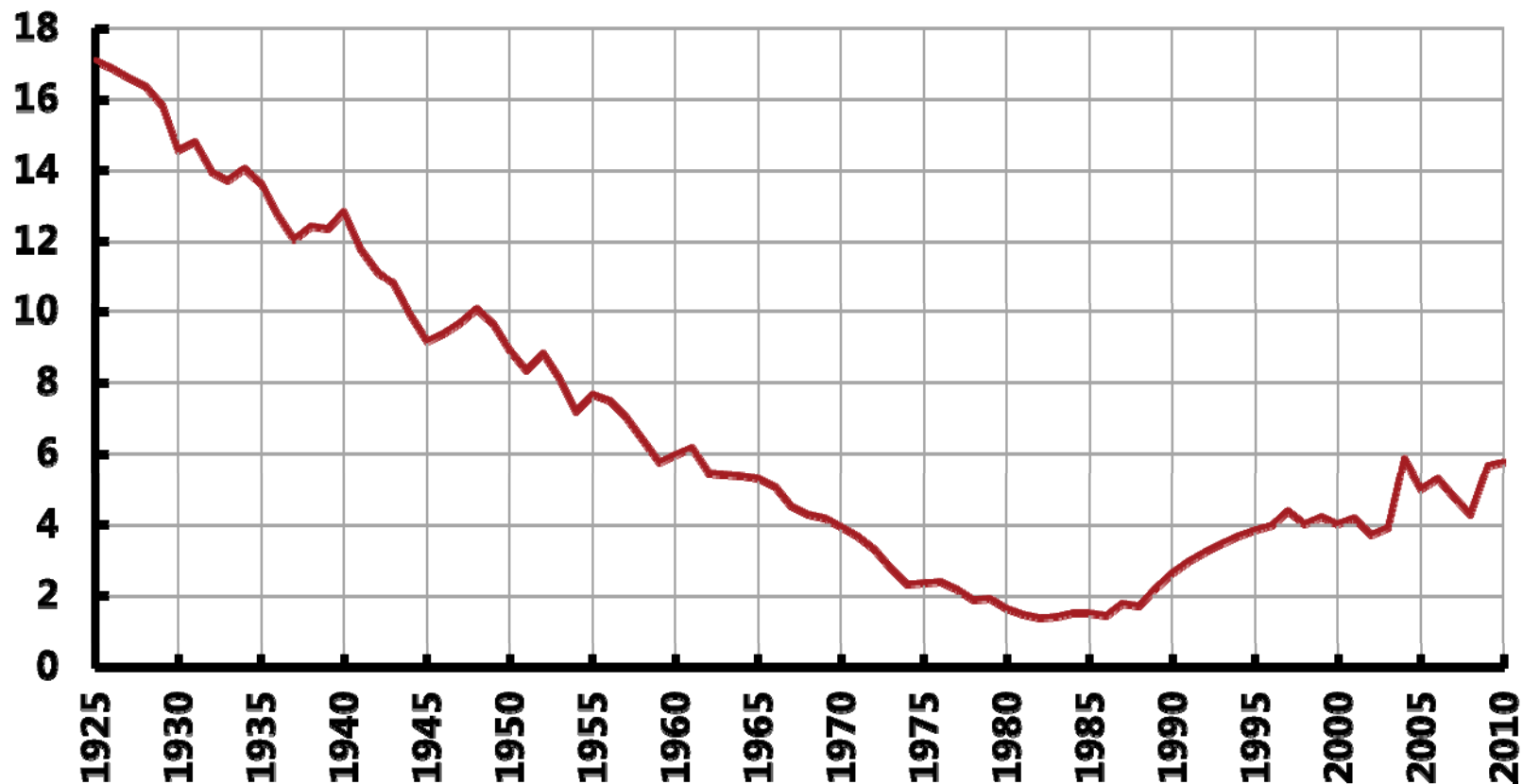
Source: Haldane (2009) Bank of England



# Capital levels – the Swedish case



Common shares /total assets %

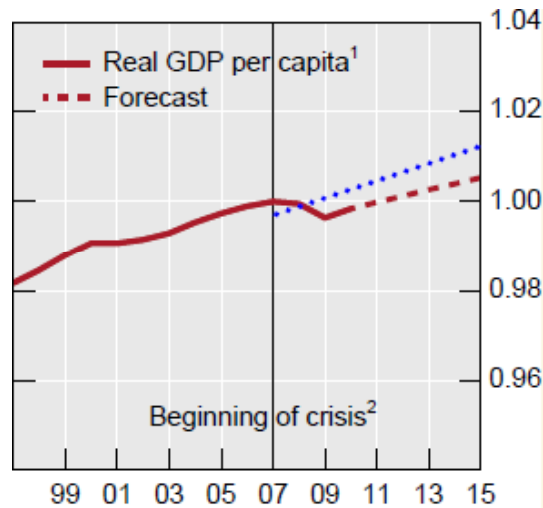


Source: Sveriges Riksbank

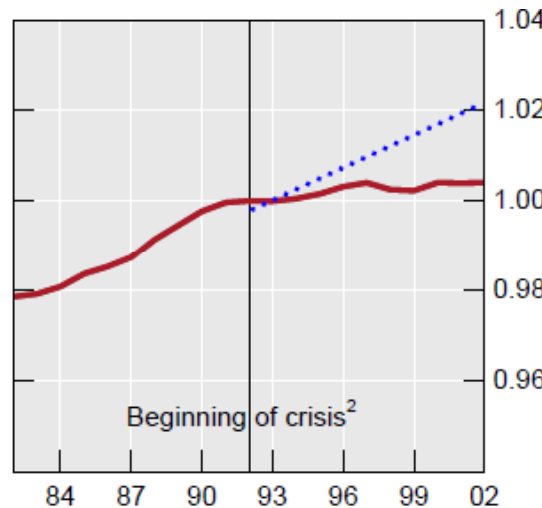
# Long term impact of a crisis



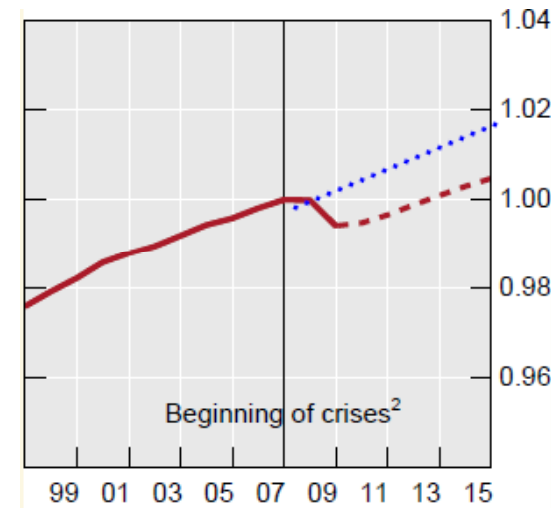
US



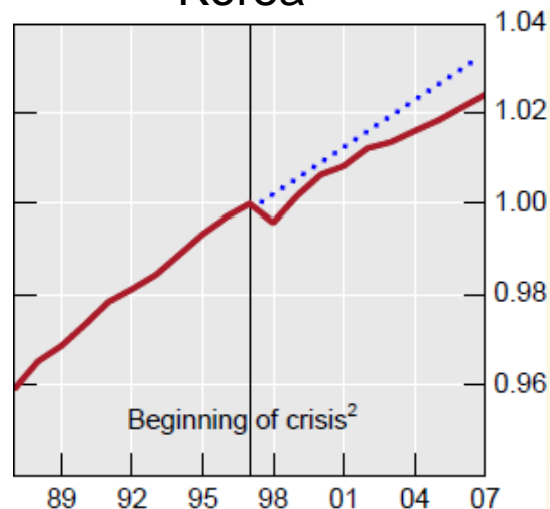
Japan



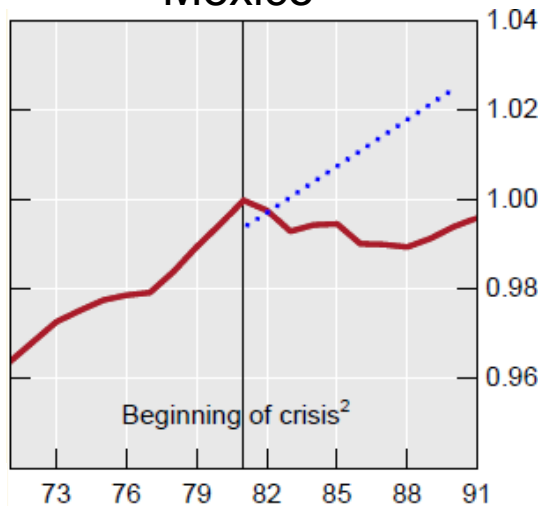
UK



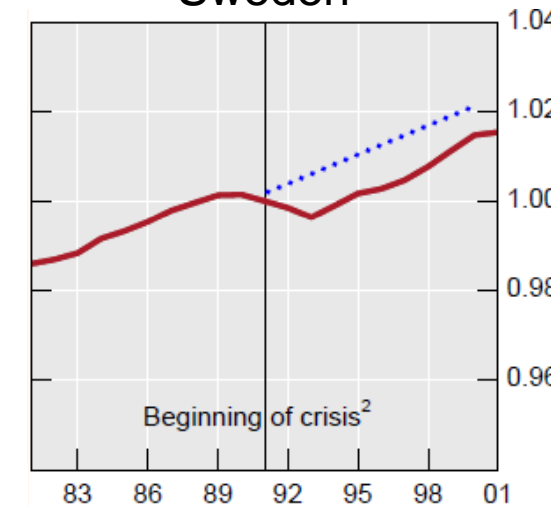
Korea



Mexico



Sweden





# More and better capital

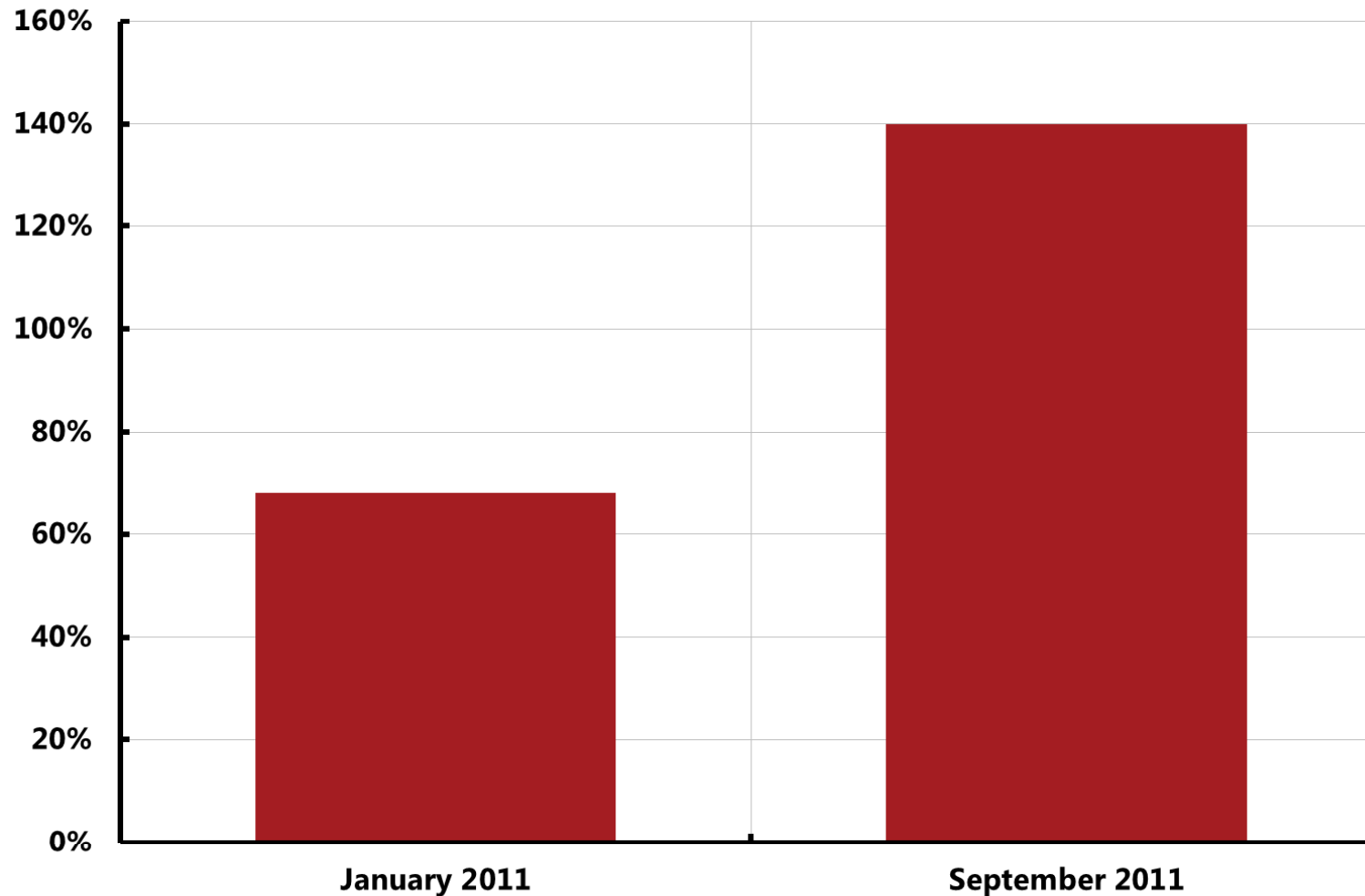
- Objective: increase the level and quality of capital
  - Focus on common equity tier 1
  - Buffers above the minimum are needed
  - Capital conservation buffer (2.5%)
  - Countercyclical buffer (0-2.5%)
  - Leverage ratio – a minimum backstop to constrain build-up of leverage in the banking sector
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# A new global liquidity framework



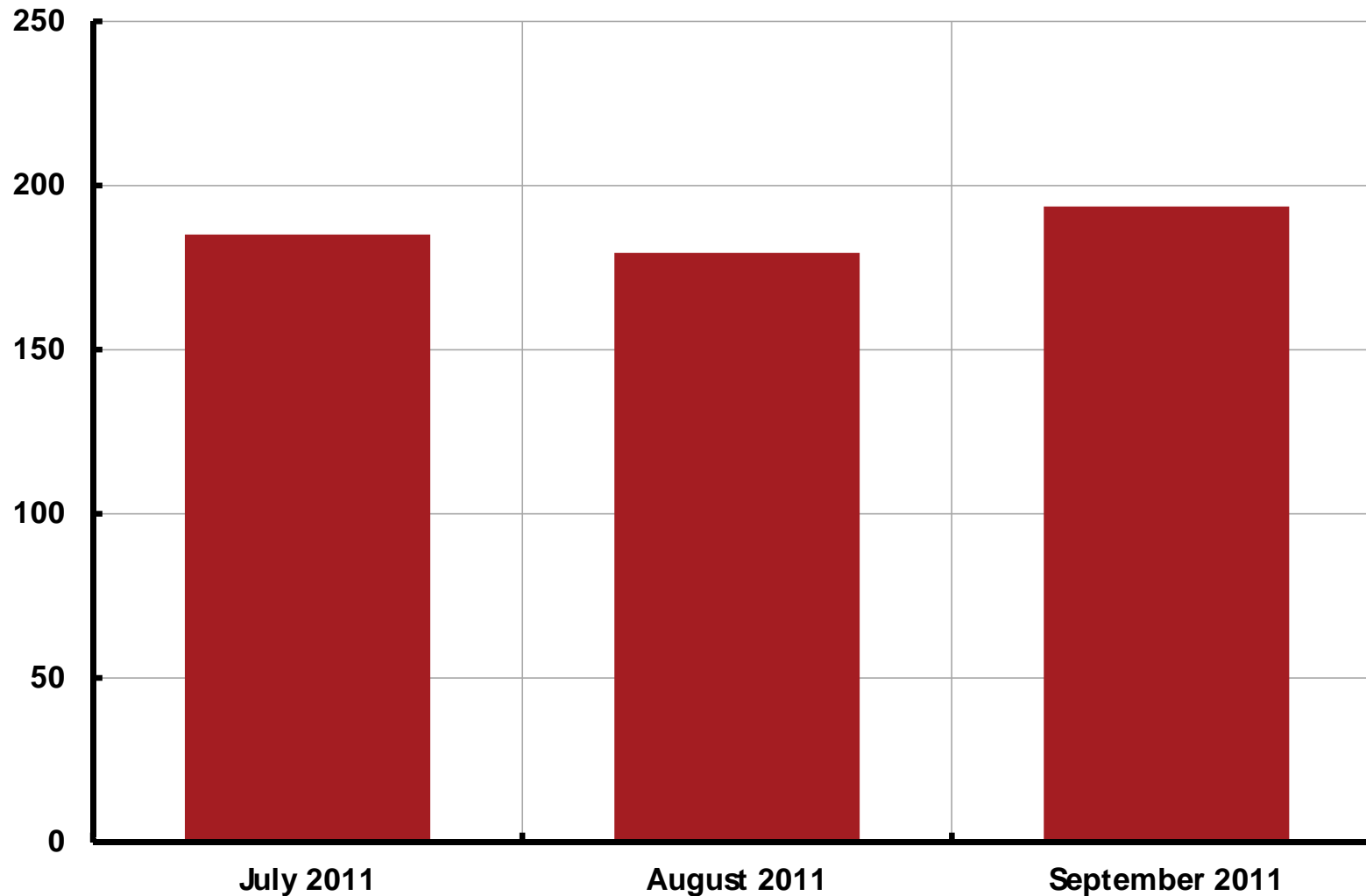
- Starting point: 2008 principles for sound liquidity risk management and supervision
  - Quantitative requirements on banks short and long term liquidity management
    - Liquidity Coverage Ratio (LCR)
    - Net Stable Funding Ratio (NSFR)
  - Still issues being addressed like the pools of highly quality liquid assets
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# Average LCR for the major Swedish banks (all currencies)



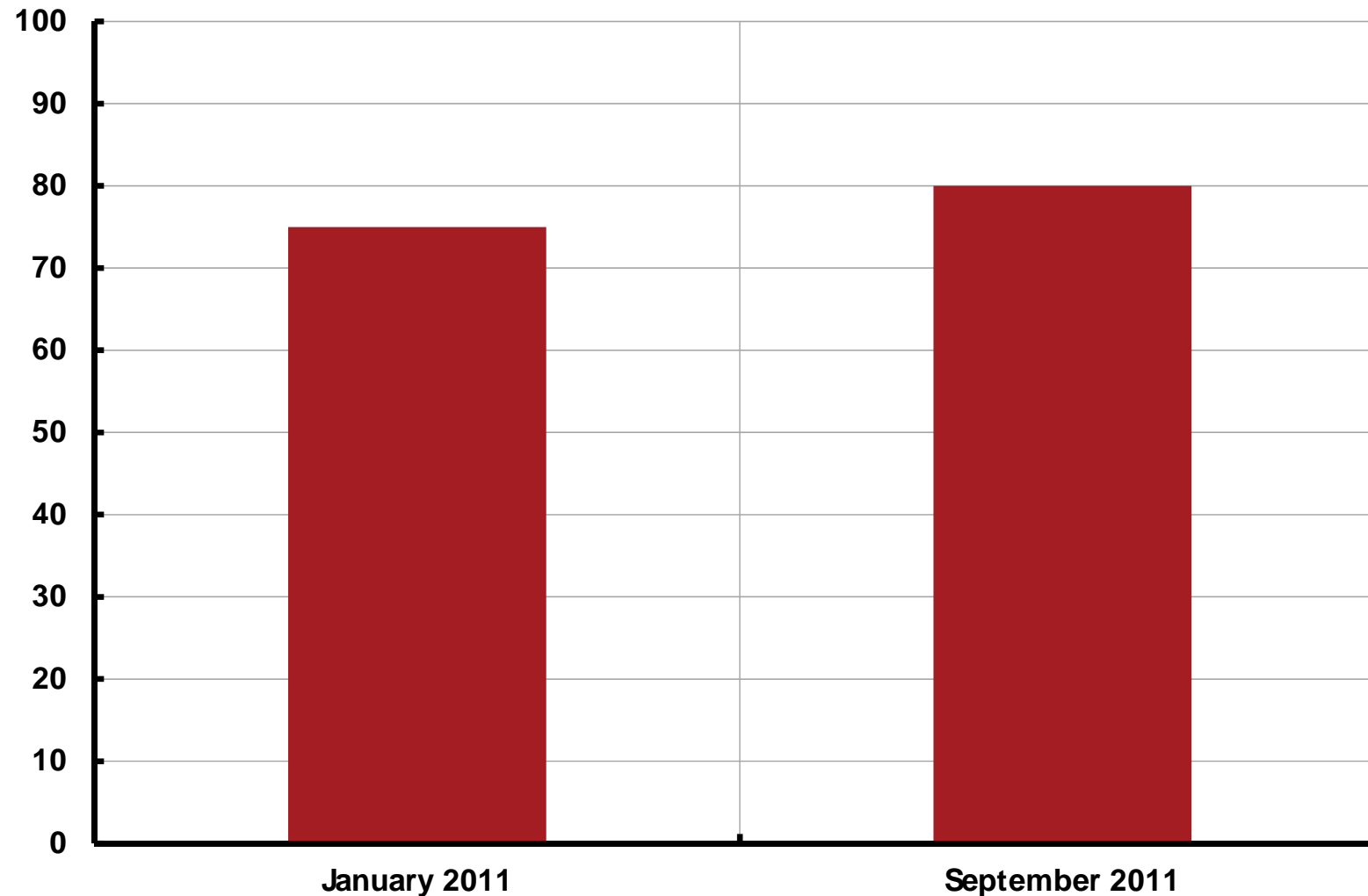
Sources: Finansinspektionen and the Riksbank

# Average LCR in USD for the major Swedish banks (%)



Sources: Finansinspektionen and the Riksbank

# Average NSFR (all currencies) for the major Swedish banks (%)



Sources: Finansinspektionen and the Riksbank

# Systemically important banks (SIBs)



- BCBS together with FSB has addressed global systemically important banks
  - High capital requirements for 29 banks from 2016
  - Next step will be addressing domestic systemically important banks (DSIBs)
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# already announced measures



- Austria
  - China
  - The Netherlands
  - Sweden
  - Switzerland
  - UK
  - US
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# Basel III – a major step forward



- But rules are only as good as they are implemented
- This is the Committee's current focus



# Assessment of implementation of Basel III



- A whole new territory for the Basel Committee
  - Three levels of assessment
    1. Timely adoption of Basel III
    2. Consistency of national regulations with Basel III text
    3. Delivery of comparable outcomes – initial focus on risk weighted assets
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# Strong supervision is essential



- Rules are only part of the game
  - Strong supervision is of equal importance
  - The Core Principles are essential in this respect
  - A few areas of importance
    - Adequate resources
    - Cross-border cooperation
    - Addressing bank-specific circumstances
    - Political independence from and support for supervisors
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# Outreach

- Committee expanded in 2009 – from 13 to 27 jurisdictions
  - Basel Consultative Group to facilitate dialogue with non-member countries (all members are on the Core Principles Group)
  - International Conference of Banking Supervisors
    - The next ICBS will be held on 12-13 September 2012 in Istanbul
  - Interaction with regional groups, World Bank, IMF & FSI
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# Concluding remarks

- Committee addressed lessons from the financial crisis
  - Measures are valid for each and every country
  - Committee's messages are simple
    - The need for a good supervisory system
    - A strong capital base
    - Ensuring liquidity
    - Take stress situations into account
    - And every country should implement the rules
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