BASEL 3

Basel is a name of city in Switzerland where a biggest financial institution was set up named banking for international settlement. so, 1930 there was a banking failure that had happened. so, comity was formed with the governors of 10 central banks -1974 (BCBS – BAZIL COMMITY ON BANKING SUPERVISION) Tha main objective of this committee is was to ensure that banks have enough capital so that they can observe any type of losses of shocks that may raise in future. then this committee got expanded to 45 other institutions. this committee also discussed about another important concept

RAW- main asset of bank is loan, but in the prosses of giving loan the borrowers of loan may default it so that the credit risk of bank may increase. So, it has given different weightage to different loans criteria so that if there is any loss then the bank can use this money. this amount that is kept a side for risk management in future is known as capital adequacy ratio. according to BIS it is 8% but according to the central bank it is 9%.

Revaluation Reserve + Subordinate debt

Share Capital + Undistributed profit + preference capital

Basel III regulations are a set of international banking regulations developed by the Basel Committee on Banking Supervision (BCBS) to strengthen the regulation, supervision, and risk management of banks. These regulations aim to improve the banking sector's ability to deal with financial stress, improve risk management, and promote transparency.

In the United States, the implementation of Basel III has been adapted to fit the U.S. banking system through rules and guidelines issued by federal banking regulators, such as the Federal Reserve, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC).

After the financial crises of 2008.the basil 3 vas introduced in 2010

Common equity-is increased to 4.5 % from 2%(basil2)

So, tier 1 – increased to 6% from 4%(basil2)

Capital conservation buffer – set as 2.5% of common equity

Common equity -increased to 7%, total capital is 10.5 %

Liquidity coverage ratio-enough funds.

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| --- | --- | --- |
| **Component** | **description** | **U.S. Implementation** |
| Capital Requirements | higher minimum capital with a focus on high-quality capital. | |  | | --- | |  |  |  | | --- | | CET1: 4.5%, Tier 1: 6%, Total Capital: 8% | |
| Risk-Weighted Assets | Aligns capital with risk exposure | |  | | --- | |  |  |  | | --- | | Higher risk weights for riskier assets. | |
| Leverage Ratio | Minimum capital relative to total assets. | minimum leverage ratio of 4%. |
| Liquidity Requirements | ensures banks have enough liquid assets and stable funding. | LCR and NSFR requirements for liquidity and funding stability. |
| Countercyclical Buffer | Extra capital during economic growth, used in downturns. | Up to 2.5% additional capital based on economic conditions. |
| Stress Testing | |  | | --- | | Tests banks' ability to handle economic stress. |  |  | | --- | |  | | DFAST and CCAR stress tests |
| Disclosure Requirements | |  | | --- | |  |  |  | | --- | | Requires detailed disclosures on capital and risk. | | Banks must disclose capital adequacy and risk management details. |

**Securities and exchange commission**

The Securities and Exchange Commission (SEC) has a vast set of regulations aimed at protecting investors, ensuring fair markets, and facilitating capital formation.

**Why Regulations Exist:**

* Established in response to the 1929 stock market crash, the SEC enforces laws to prevent similar disasters.
* Regulations aim to:
  + Protect investors from fraud and misinformation
  + Promote transparency in companies issuing securities
  + Ensure fair and orderly trading practices

**Sources of Regulations:**

The SEC's regulatory authority comes from various laws passed by Congress, including:

* Securities Act of 1933
* Securities Exchange Act of 1934
* Investment Company Act of 1940
* Investment Advisers Act of 1940
* Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

**SEC's Rulemaking Process:**

The SEC creates specific regulations based on these laws. The process typically involves:

1. Proposing a rule
2. Allowing public comment
3. Finalizing and publishing the rule

**Examples of Well-Known Regulations:**

* **Rule 10b-5:** Creates a legal basis for suing over securities fraud
* **SEC Gun-Jumping Rules:** Prohibit companies from selectively disclosing material information to analysts or investors before public announcements.

**DODD-FRANK ACT -SARBANES-OXLEY ACT (SOX)**

