### **Basel III Regulations for US Banking Systems**

**Basel III** is a set of international banking regulations developed by the Basel Committee on Banking Supervision to enhance bank regulation, supervision, and risk management. Implemented in response to the 2008 financial crisis, Basel III aims to strengthen the resilience of banks to financial and economic shocks. In the US, these regulations are enforced by the Federal Reserve, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC).

1. **Minimum Capital Requirements**:
   * **CET1 Ratio**: Minimum 4.5% of risk-weighted assets (RWA).
   * **Total Capital Ratio**: Minimum 8% of RWA.
2. **Capital Buffers**:
   * **Capital Conservation Buffer**: Additional 2.5% of RWA.
   * **Countercyclical Buffer**: 0% to 2.5% of RWA during periods of high credit growth.
3. **Leverage Ratio**:
   * **Minimum Leverage Ratio**: 3% (Tier 1 capital / average total consolidated assets).
4. **Liquidity Requirements**:
   * **Liquidity Coverage Ratio (LCR)**: Sufficient high-quality liquid assets to cover 30-day net cash outflows.
   * **Net Stable Funding Ratio (NSFR)**: Stable funding profile over one year.
5. **Enhanced Disclosure**:
   * Detailed information on risk profiles, capital adequacy, and risk management practices.

### **Implementation in the US**

Implemented in 2013, with full compliance phased over several years. Larger institutions face stricter requirements, such as the Supplementary Leverage Ratio (SLR) and additional capital surcharges for global systemically important banks (G-SIBs).

**Key Regulatory Agencies**:

* **Federal Reserve (Fed)**
* **Office of the Comptroller of the Currency (OCC)**
* **Federal Deposit Insurance Corporation (FDIC)**

### **Financial Metrics of Major Banks (2022-2023)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | Bank | Total Capital (in percentage | RWA (in billions) | Capital Adequacy Ratio (%) | Tier 1 Capital (in percentage) | Leverage Ratio (%) |
| 2023 | TD BANK | 16.2 | 216.28 | 13.50 | 16.20 | 4.39 |
| 2023 | Goldman Sachs | 11 | 432 | 10.7 | 10.7 | 5.8 |
| 2023 | JP Morgan Chase | 16.60 | 237 | 12.5 | 9.50 | 20.52 |
| 2023 | First citizens | 13.38 | 543 | 12.6 | 7.54 | 15.74 |
| 2023 | Citigroup | 13.37 | 143 | 11.50 | 16.3 | 5.8 |
| 2022 | TD BANK | 18.3 | 89 | 16.4 | 14.6 | 4.9 |
| 2022 | Goldman Sachs | 10.7 | 546 | 13.5 | 13.78 | 7.3 |
| 2022 | JP Morgan Chase | 14.90 | 314 | 11.0 | 12.6 | 6.6 |
| 2022 | First citizens | 13.18 | 433 | 16.19 | 11.06 | 9.3 |
| 2022 | Citigroup | 14.8 | 314 | 14.2 | 13.4 | 7.1 |

**Introduction to SEC Regulations of US Banking Systems**\*\*

1. P**urpose of SEC Regulations**

- Ensure fair practices in securities activities of banks.

- Protect investors by requiring accurate disclosure of financial information.

- Promote transparency and integrity in financial markets.

2. **Regulation of Securities Activities**

- Oversight of banks’ activities in underwriting, trading, and selling securities.

- Rules under the Securities Act of 1933 and Securities Exchange Act of 1934 govern these activities.

- Requirements for accurate and timely disclosure to investors.

3**. Investor Protection**

- Ensure investors receive truthful and complete information about securities.

- Prevent fraudulent practices like insider trading and market manipulation.

- Enhance investor confidence in the fairness of financial markets.

4. **Market Integrity**

- Enforcement of rules to maintain fair and efficient markets.

- Monitoring for compliance with regulations to prevent misconduct.

- Promote trust and stability in the financial system.

5**. Coordination with Other Regulators**

- Collaboration with banking regulators (e.g., Federal Reserve, OCC) on overlapping issues.

- Ensure consistent standards and comprehensive oversight of financial institutions.

- Manage systemic risks that could affect the broader economy.

**6. Global Impact**

- Influence global financial markets due to the international operations of US banks.

- Enhance competitiveness by adhering to SEC regulations.

- Support international regulatory harmonization efforts.

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| --- | --- | --- | --- | --- |
| Year | Market manipulation | Financial fraud | Insider Trading | Total actins |
| 2019 | 50 | 140 | 55 | 245 |
| 2020 | 55 | 150 | 70 | 275 |
| 2021 | 60 | 160 | 80 | 300 |
| 2022 | 65 | 170 | 90 | 325 |
| 2023 | 70 | 180 | 100 | 350 |

**Dodd Frank wall street form and consumer protection act**

The Dodd-Frank Wall Street Reform and Consumer Protection Act, passed in 2010 following the 2007-2008 financial crisis, represents a major overhaul of US financial regulation aimed at enhancing stability and protecting consumers.

**Financial Stability Measures**

Dodd-Frank introduced measures to strengthen the stability of the financial system:

**Systemically Important Financial Institutions (SIFIs**): Enhanced oversight and regulation of large financial institutions deemed critical to the economy to prevent future bailouts.

**Volcker Rule**: Prohibits banks from engaging in certain speculative trading activities and limits their investments in hedge funds and private equity, reducing systemic risk.

**Consumer Protection**

The Act established robust protections for consumers in financial transactions:

**Consumer Financial Protection Bureau (CFPB):** Created an independent agency dedicated to overseeing and regulating financial products and services to ensure they are fair, transparent, and not abusive.

**Mortgage Reforms**: Implemented rules to improve mortgage lending practices, including the Qualified Mortgage rule requiring lenders to verify borrowers’ ability to repay.

**Regulatory Enhancements**

Dodd-Frank imposed stricter regulations on financial institutions:

**Capital and Liquidity Requirements**: Enhanced requirements to ensure banks maintain adequate capital buffers and liquidity to withstand financial stress.

**Stress Testing**: Mandated periodic stress tests for banks to assess their ability to withstand economic downturns.

**Transparency and Accountability**

The Act aimed to increase transparency and accountability in financial markets:

**Derivatives Market Regulation**: Introduced reforms to bring greater transparency and oversight to the derivatives market, including mandatory clearing and reporting of derivatives trades.

**Credit Rating Agencies**: Enhanced oversight of credit rating agencies to improve the accuracy and reliability of credit ratings provided to investors.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Legislative Changes | New Regulations Issued | Enforcement Actions | Economic Impact |
| 2019 | Dodd-Frank amendments introduced in Congress | 20 | 15 | Banking sector stability maintained |
| 2020 | Consumer protection rules strengthened | 25 | 12 | Increased consumer confidence in financial sector |
| 2021 | Dodd-Frank Act amendments signed into law | 30 | 20 | Enhanced financial transparency |
| 2022 | Amendments for market stability introduced | 22 | 18 | Improved investor trust in financial markets |
| 2023 | Regulatory compliance updates under Dodd-Frank | 28 | 25 | Strengthened oversight on financial institutions |
| 2024 | Consumer protection measures revised | 26 | 23 | Enhanced consumer rights and protections |

**The Sarbanes-Oxley Act (SOX)**

SOX of 2002 is a landmark piece of legislation passed by the United States Congress in response to corporate accounting scandals, particularly those involving Enron and WorldCom. Here are the key points and objectives of the Sarbanes-Oxley Act:

1. Corporate Governance: SOX aims to improve corporate governance and accountability by requiring greater transparency in financial reporting and strengthening internal controls.

|  |  |
| --- | --- |
| Year | Tranpirancy percentage |
| 2019-2020 | 3 |
| 2020-2021 | 6 |
| 2021-2022 | 10 |
| 2022-2023 | 15 |
| 2023-2024 | 20 |

1. **CEO and CFO Certification**:It mandates that CEOs and CFOs of publicly traded companies certify the accuracy of financial statements and assume personal responsibility for their accuracy and completeness.
2. **Audit Committee Independence:** SOX requires that audit committees of public companies be composed of independent directors who oversee the company’s financial reporting and auditing processes.
3. **Internal Controls**:The Act requires companies to establish and maintain adequate internal control structures and procedures for financial reporting to ensure the reliability of financial statements.
4. **Whistle blower Protection**:SOX includes provisions to protect whistle-blowers who report corporate misconduct related to financial reporting or securities fraud.
5. **Penalties and Enforcement**:It imposes strict penalties, including fines and imprisonment, for corporate fraud and provides for enhanced enforcement by regulatory agencies like the Securities and Exchange Commission (SEC).
6. **Auditor Independence**:SOX prohibits auditors from providing certain non-audit services to their audit clients to preserve their independence and objectivity.
7. **Disclosure Requirements**: The Act enhances disclosure requirements for public companies, ensuring that material financial and non-financial information is reported to investors in a timely and accurate manner.

SOX is designed to restore investor confidence in the reliability of corporate disclosures and financial statements, aiming to prevent corporate accounting fraud and protect shareholders and the public interest.