Reg

**Question 1: In 200 words or less, explain what you think the Basel Committee**

**is trying to achieve with this regulation, pros/cons of this approach and what**

**(if any) is the alternative?**

Basel is the International banking regulation to keep all financial institutions away from risk due to losses. These Standards brought 2 decades ago after huge rescissions occurred due to financial institutions got into bankrupts. There are three type of risk assessments which will be performed in Banks through Basel approach like Credit Risk, Market Risk, Operation Risk.

Firstly, Credit Risk is to assess the Risk of Exposures if counterparties fails to repay loans.

Secondly, Market Risk is to assess the losses to the banks due to Market price Movements on Investments. Additionally, Operation Risk is to assess the losses of bank due to banking operational like damage to tangible assets, Process Errors or Human Errors.

Advantage of these Risk Assessments to know the exposure of the bank that going to lose and to take precautionary measure to avoid net losses. In contrast, Banks should be prepare in all aspects mainly like funding on these kind of Projects which will changes regularly to Basel reporting(current version is Basel IV) by meeting stringent timelines to avoid penalties from regulators.

Overall, Basel is Standard approach globally to keep monitoring the bank losses to avoid bankrupts and keep global economy healthy.

**Question 2: In 100 words or less, explain, as you would to your grandmother,**

**what the Add-On is for?**

Add-On is the factor to assess possibility of increase in exposure in future derivatives contract.

For Example, Person A made a 1 year contract with Person B that Person A will give 1 ton Spices of worth 1000 $ to Person B and Person B gives 1000 $ to Person A. At the end of the Contract, both valuable need to be exchange back. So Person A should assess the possible exposure if Spices prices moves at the end of the contract which means if spices price goes to 1500 $ and Person B not repaying 1000$ then there will be no exposure to Person A. If Spice price comes to 500 $ and Person B not repaying 1000$ then possible exposure will be 500$ to Person A and here Add-on factor for spices price movement is 0.50%.