



# Banking Regulations



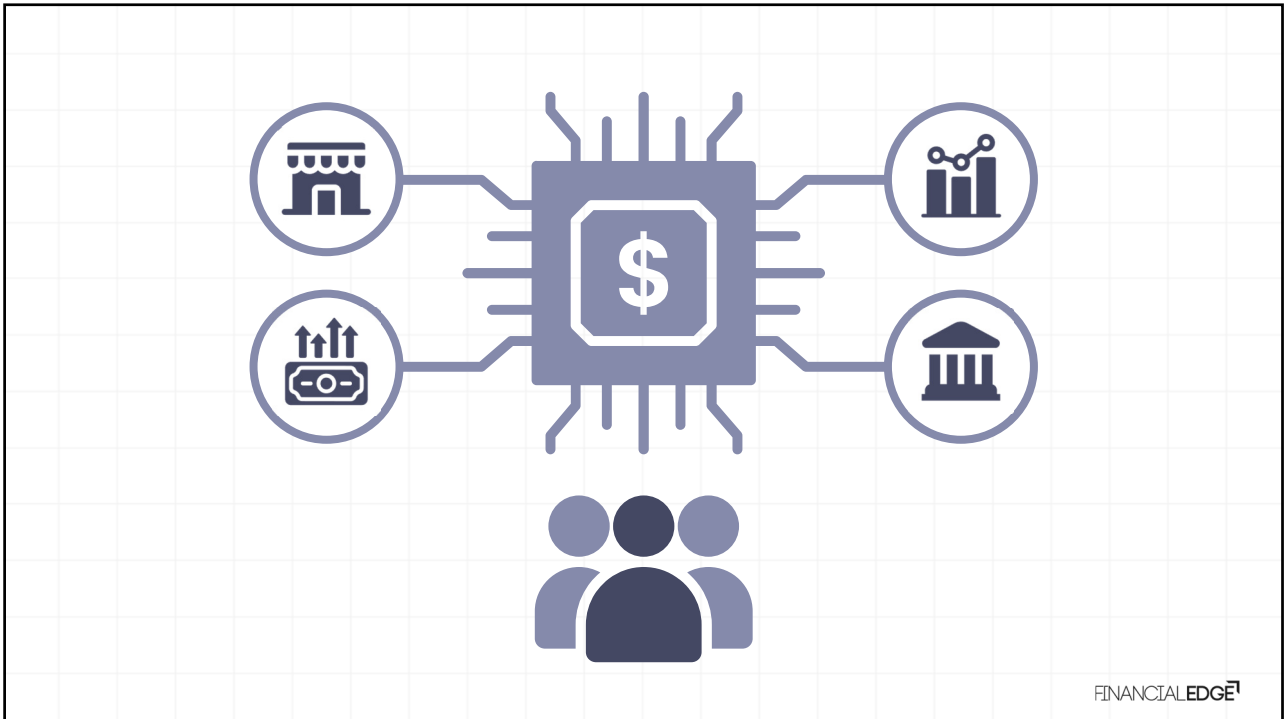
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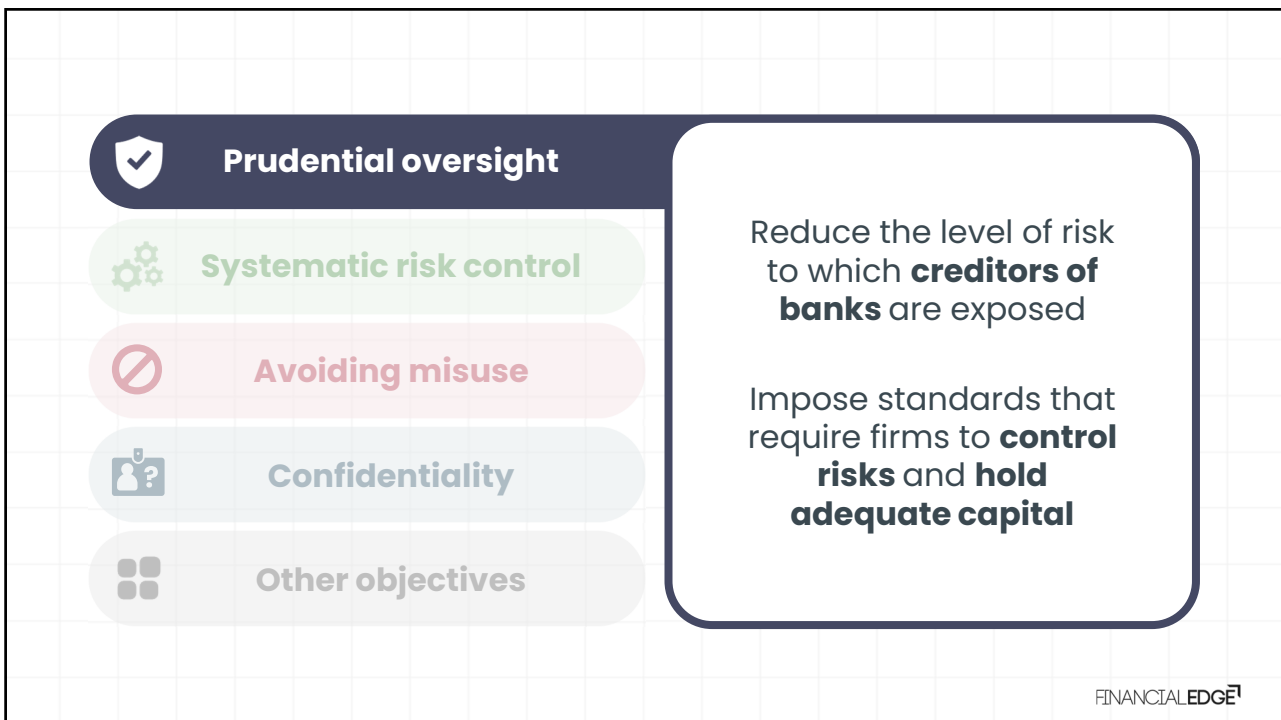
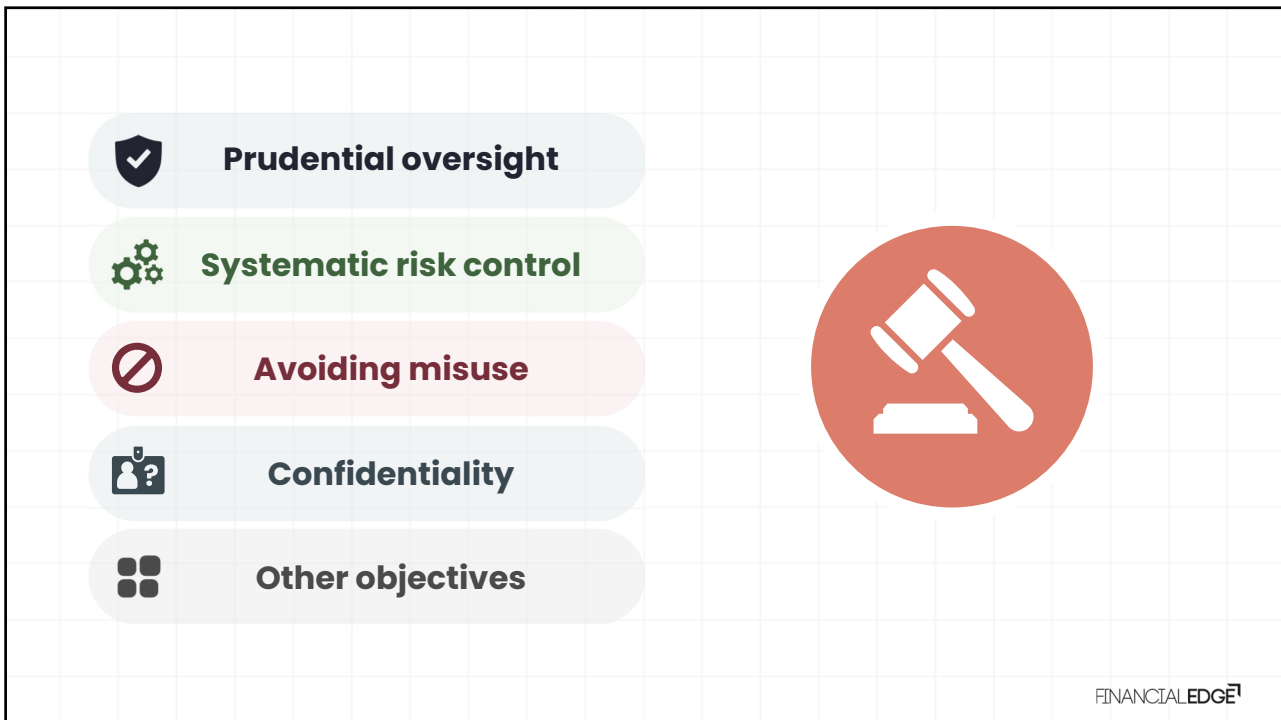


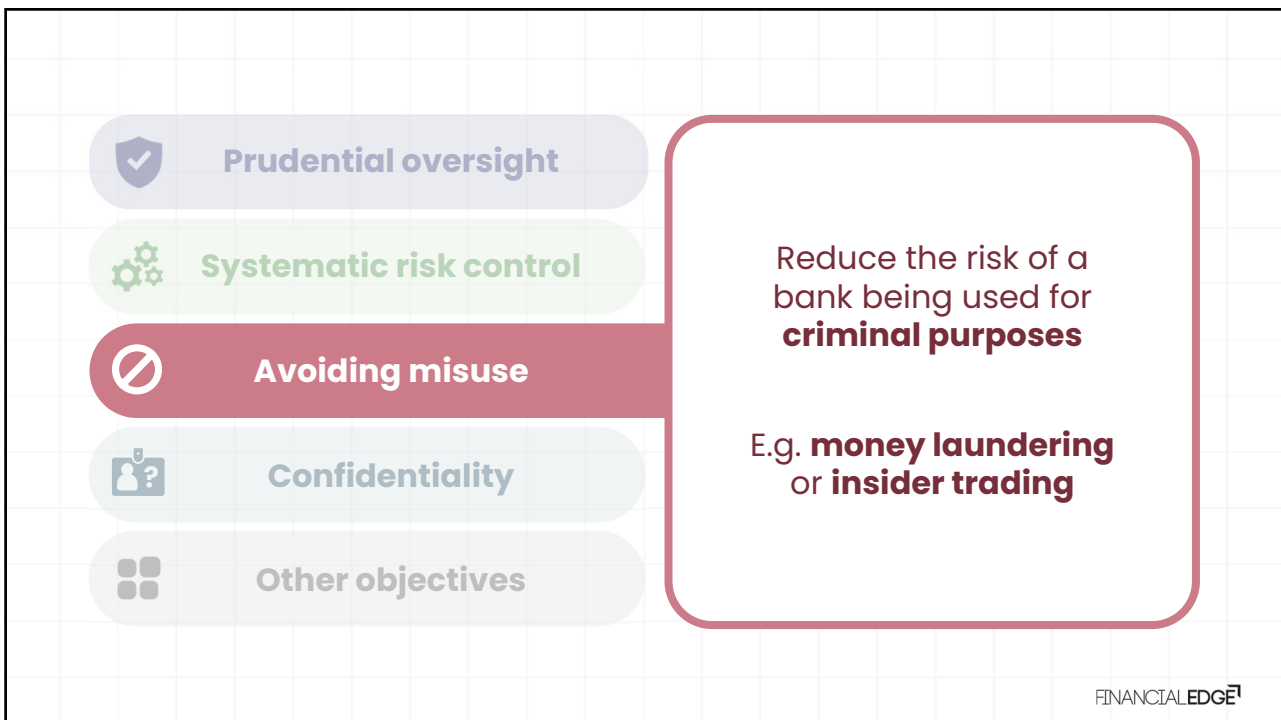
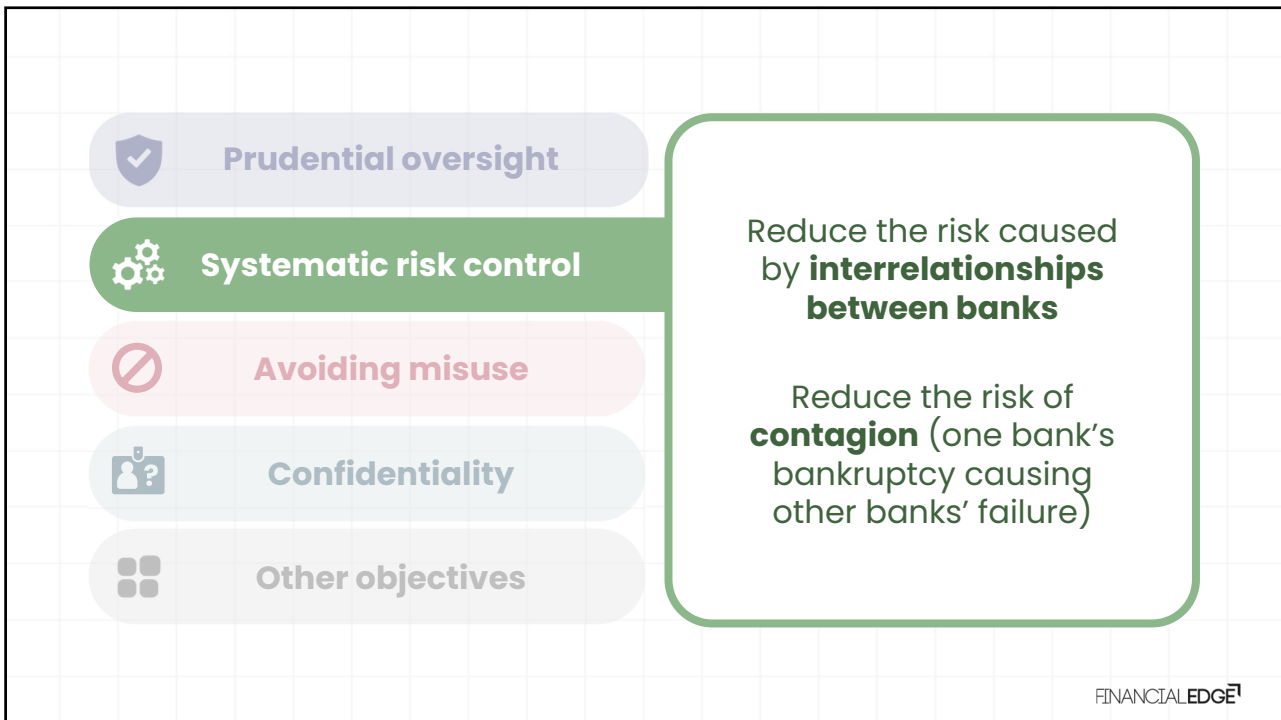
# Key Objectives and Tools

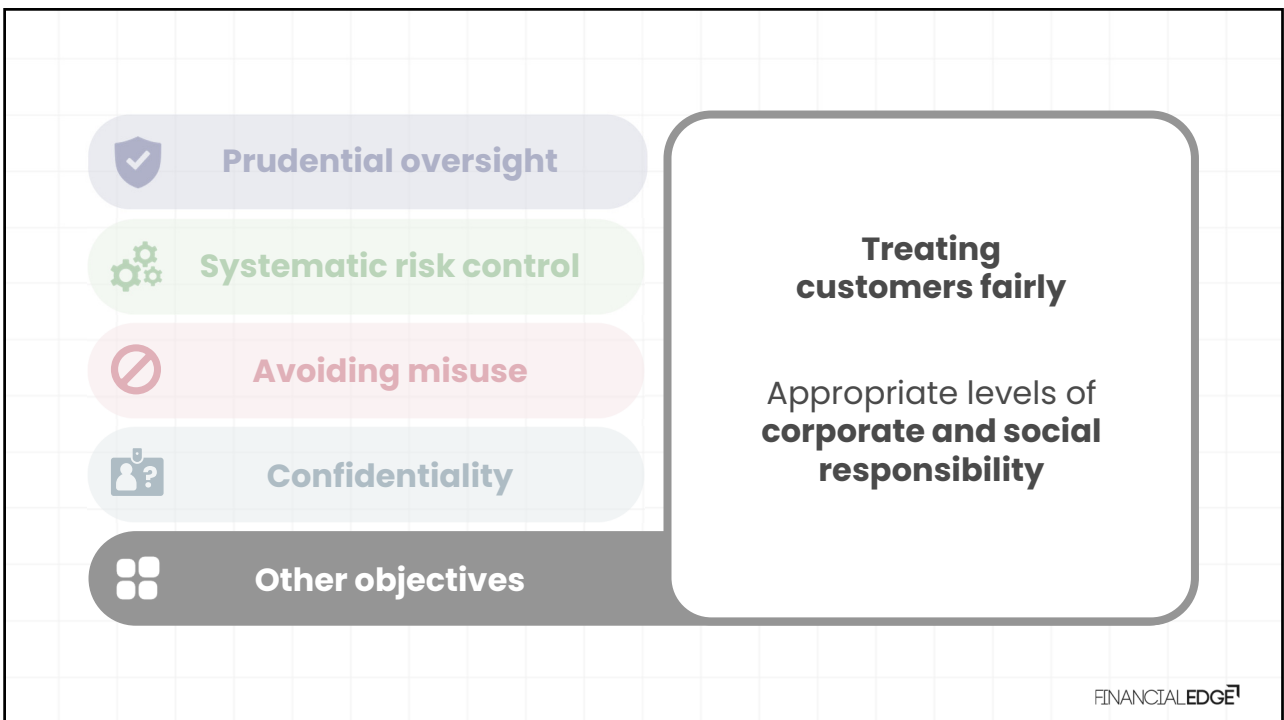
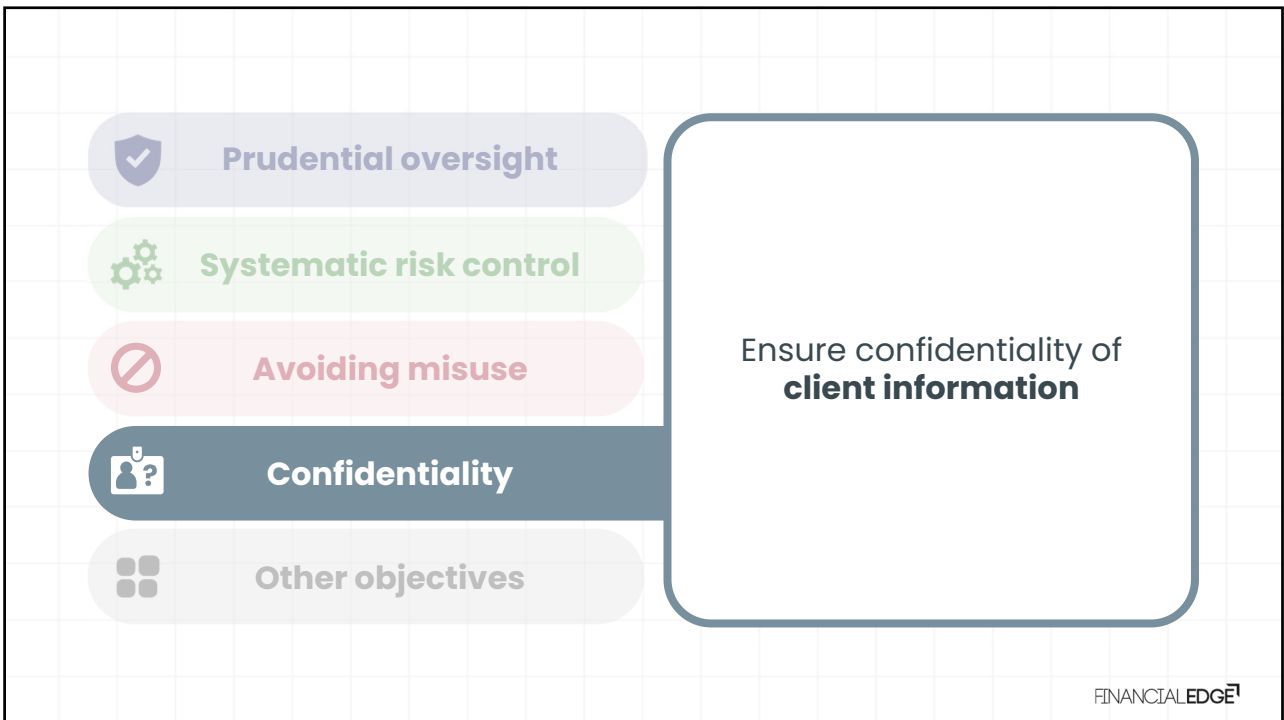


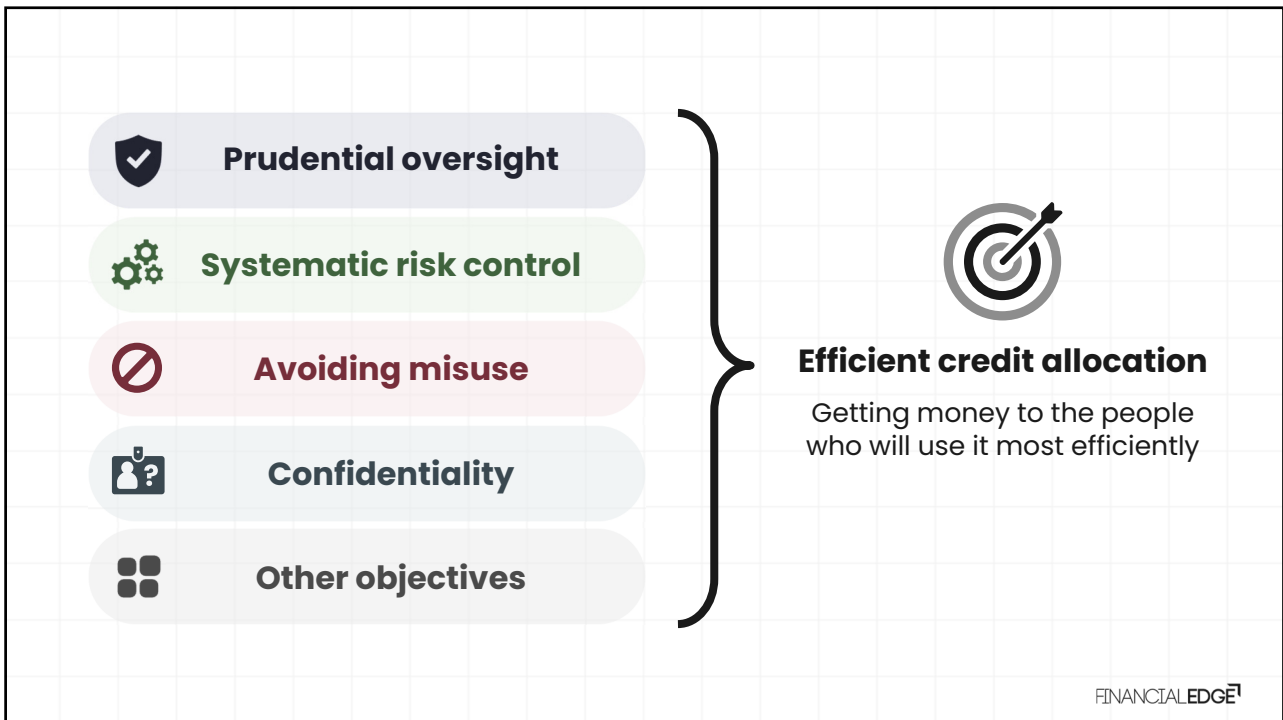
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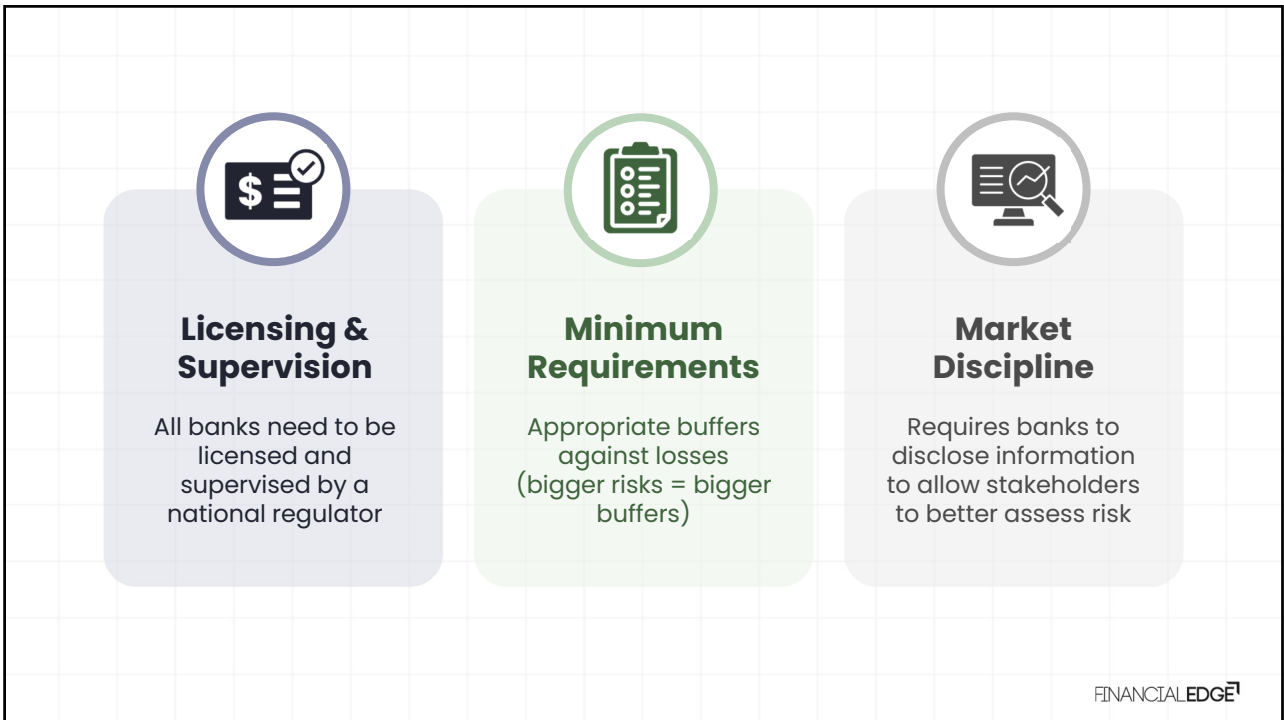
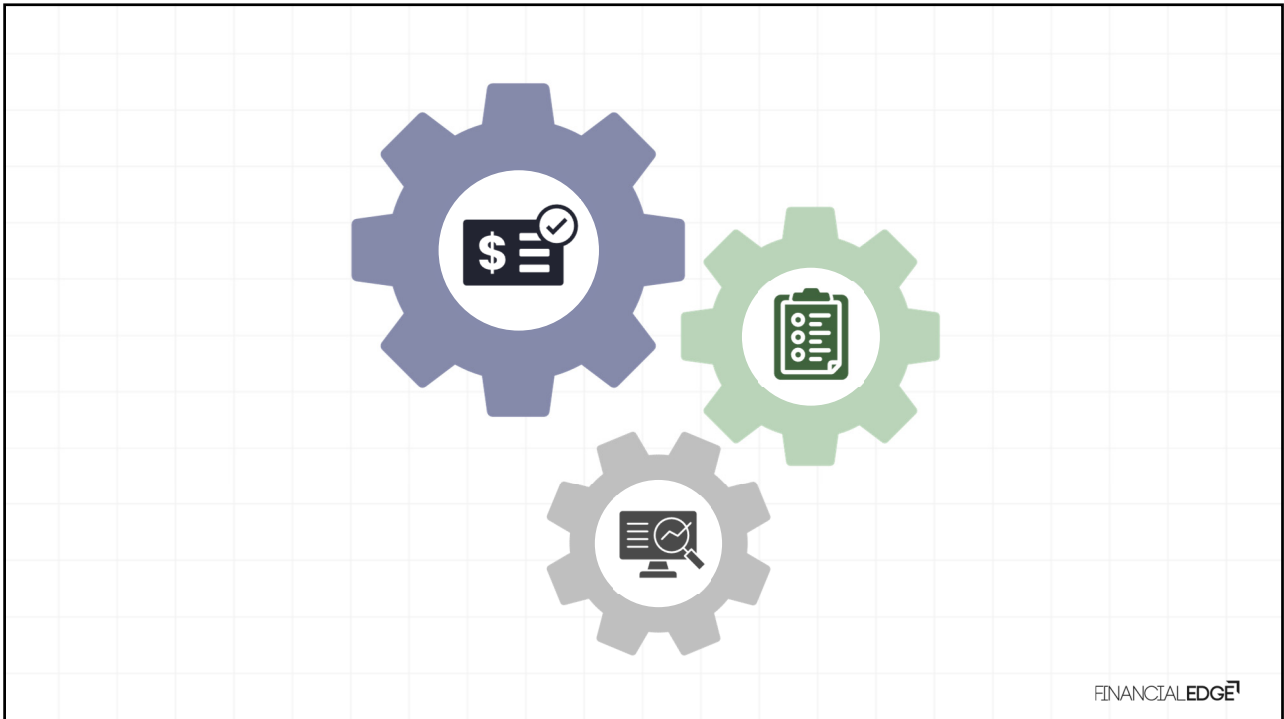


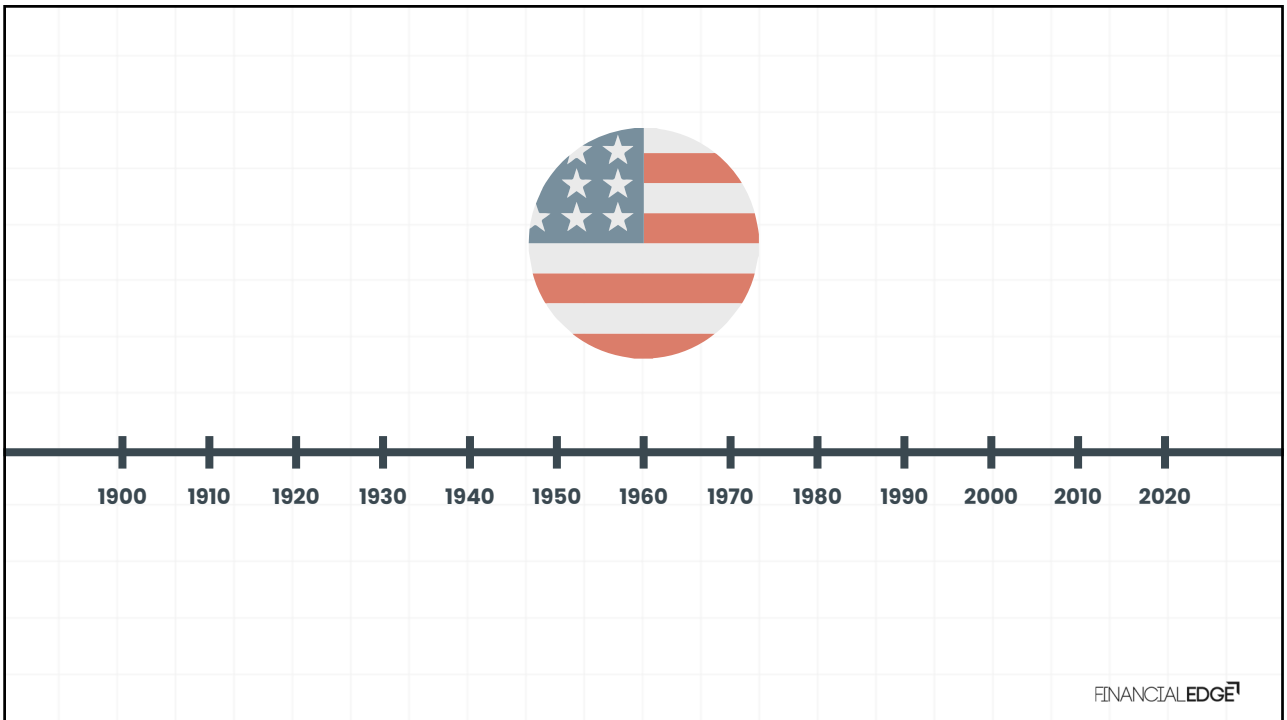


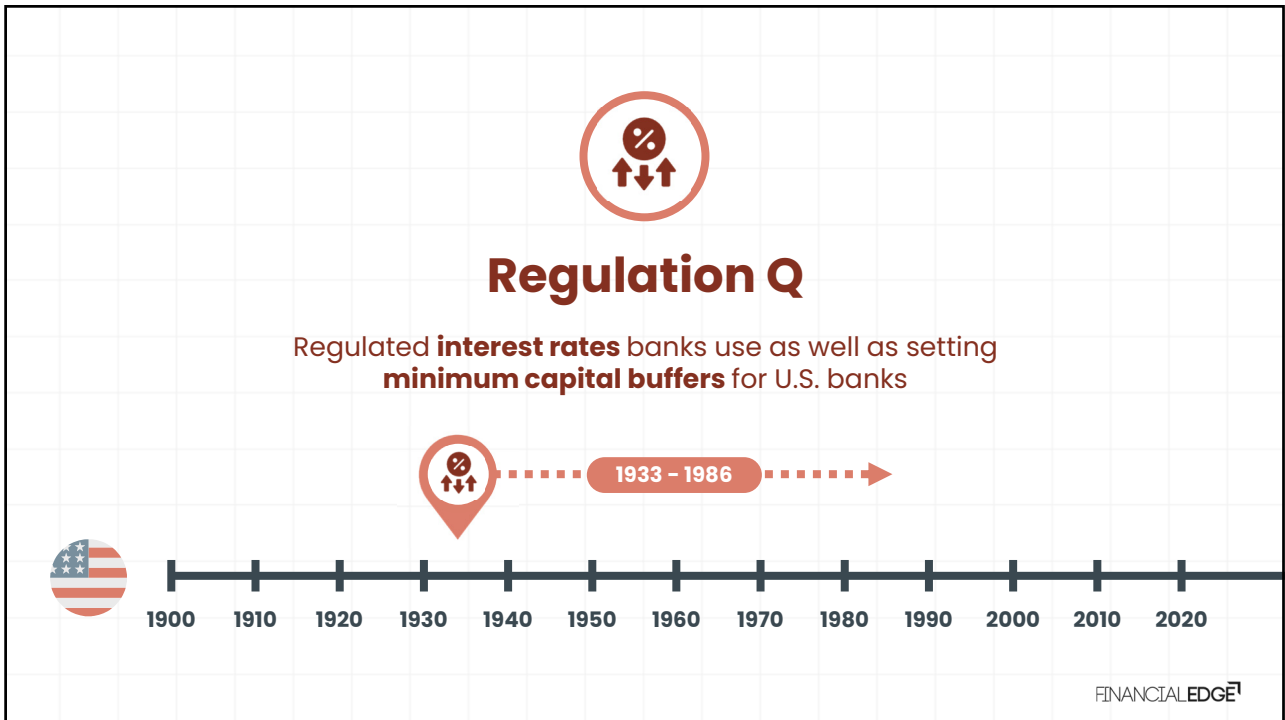
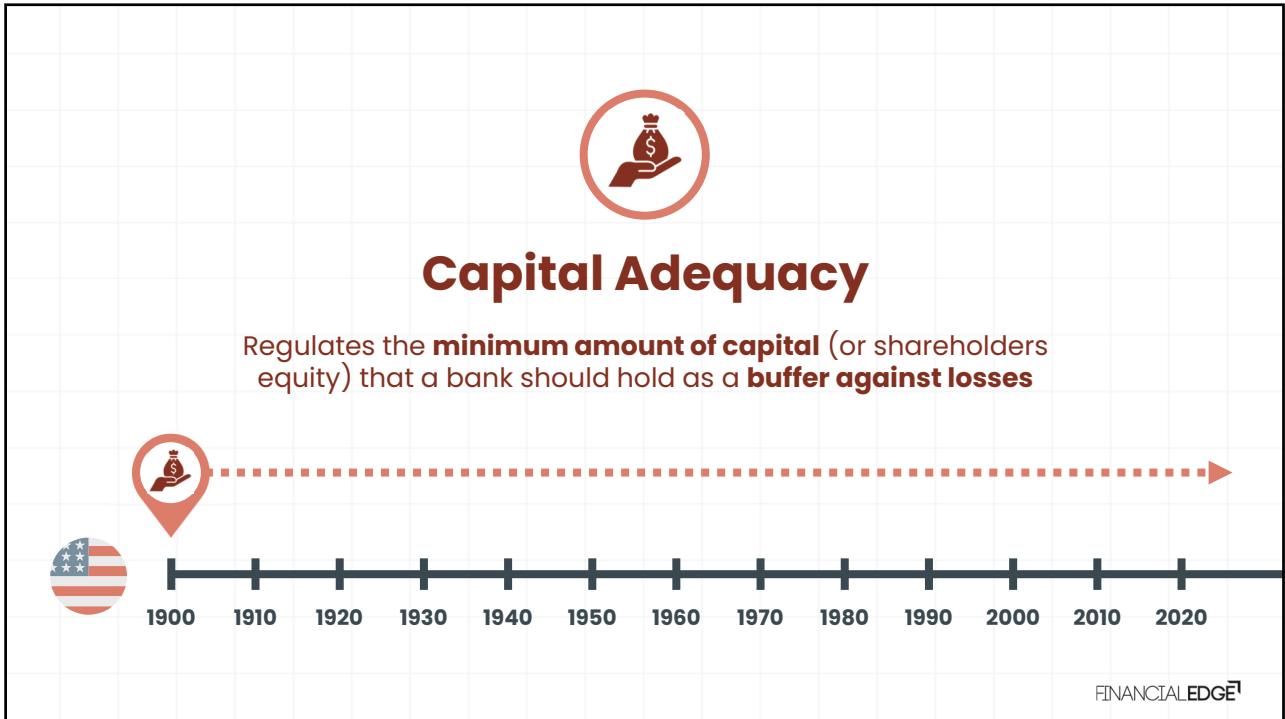


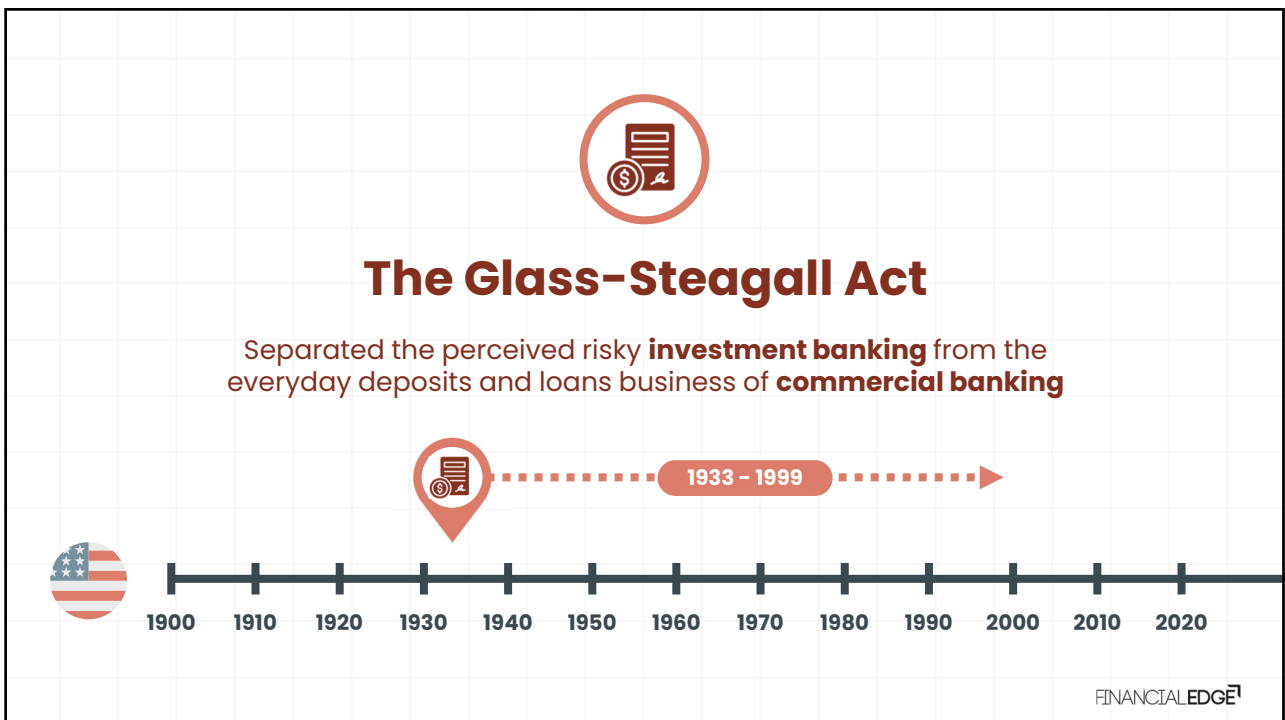
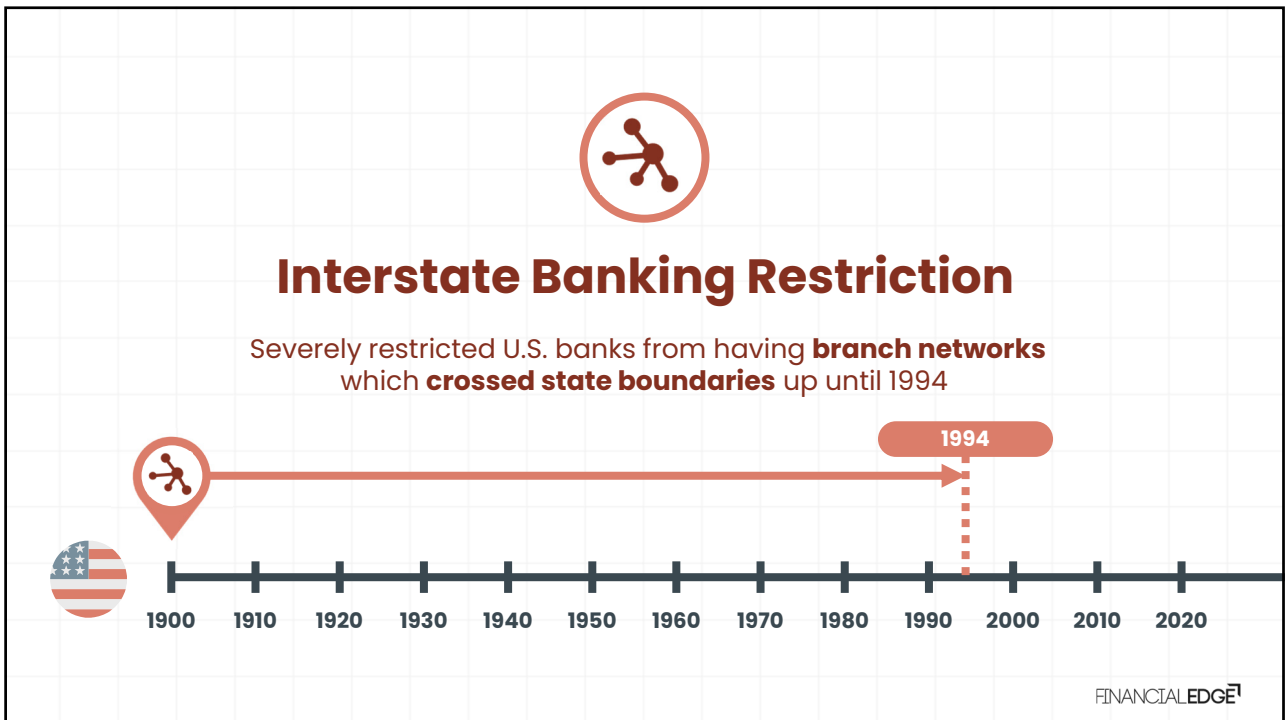


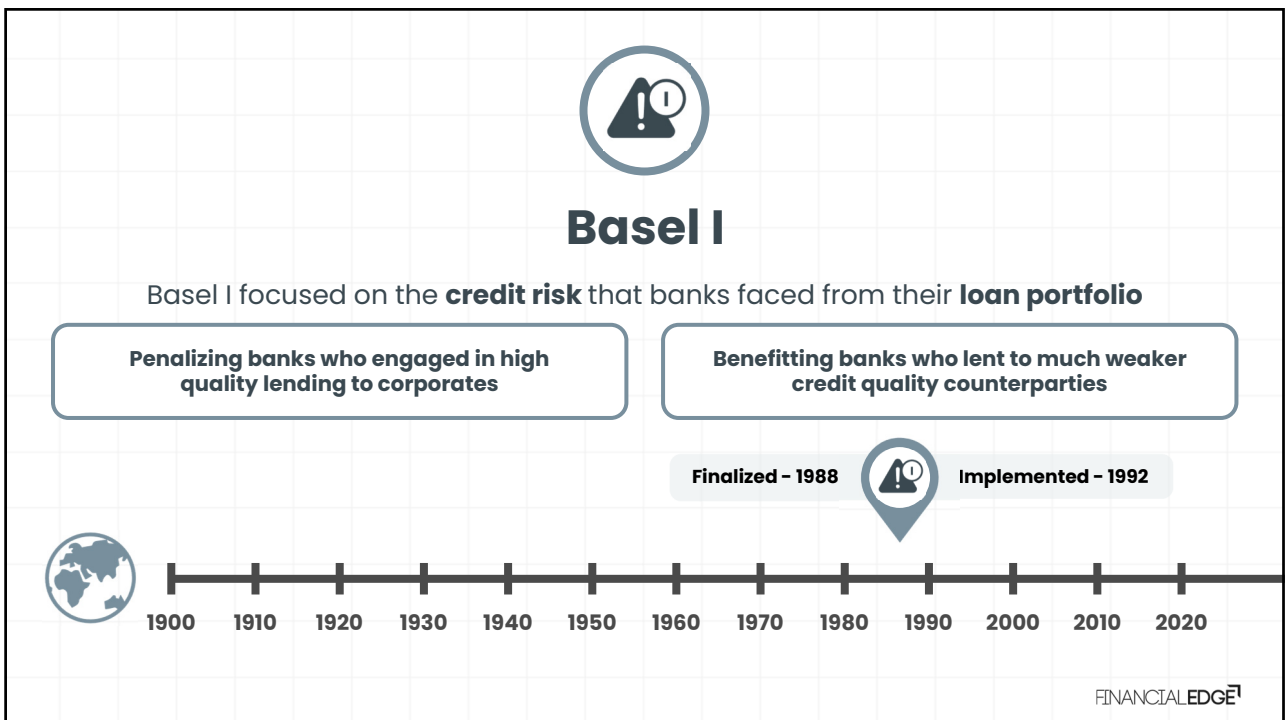
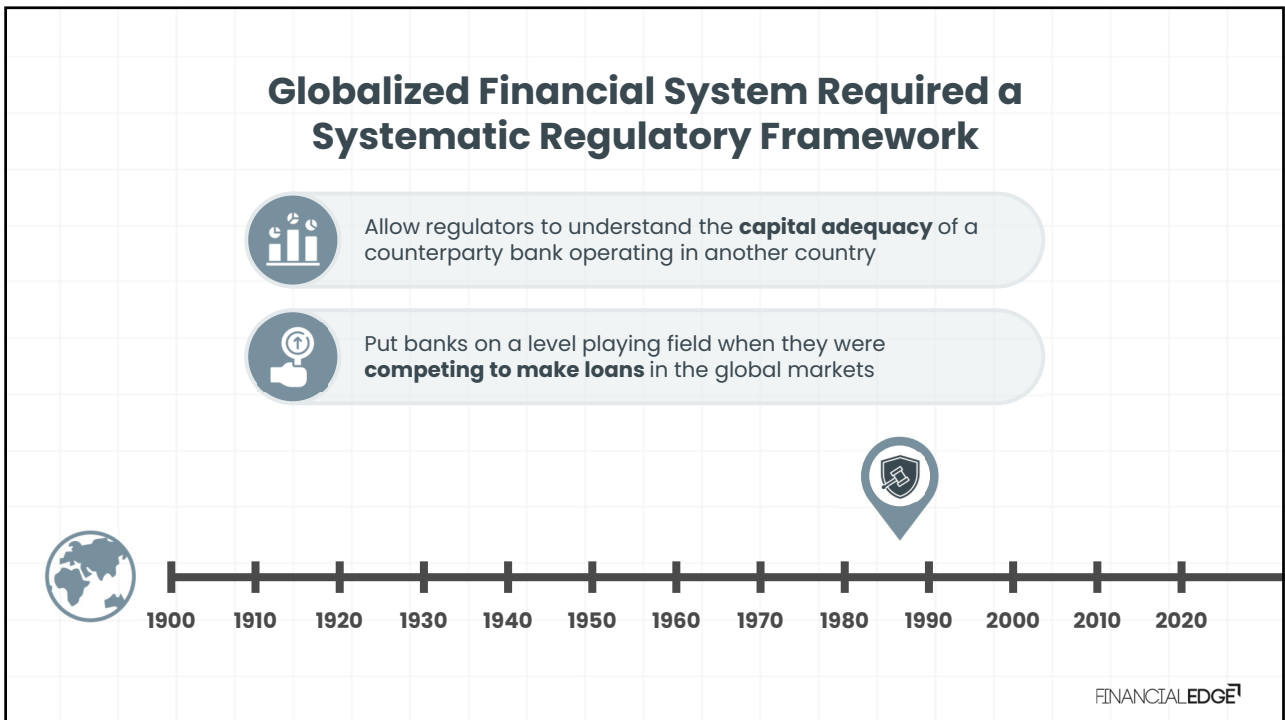


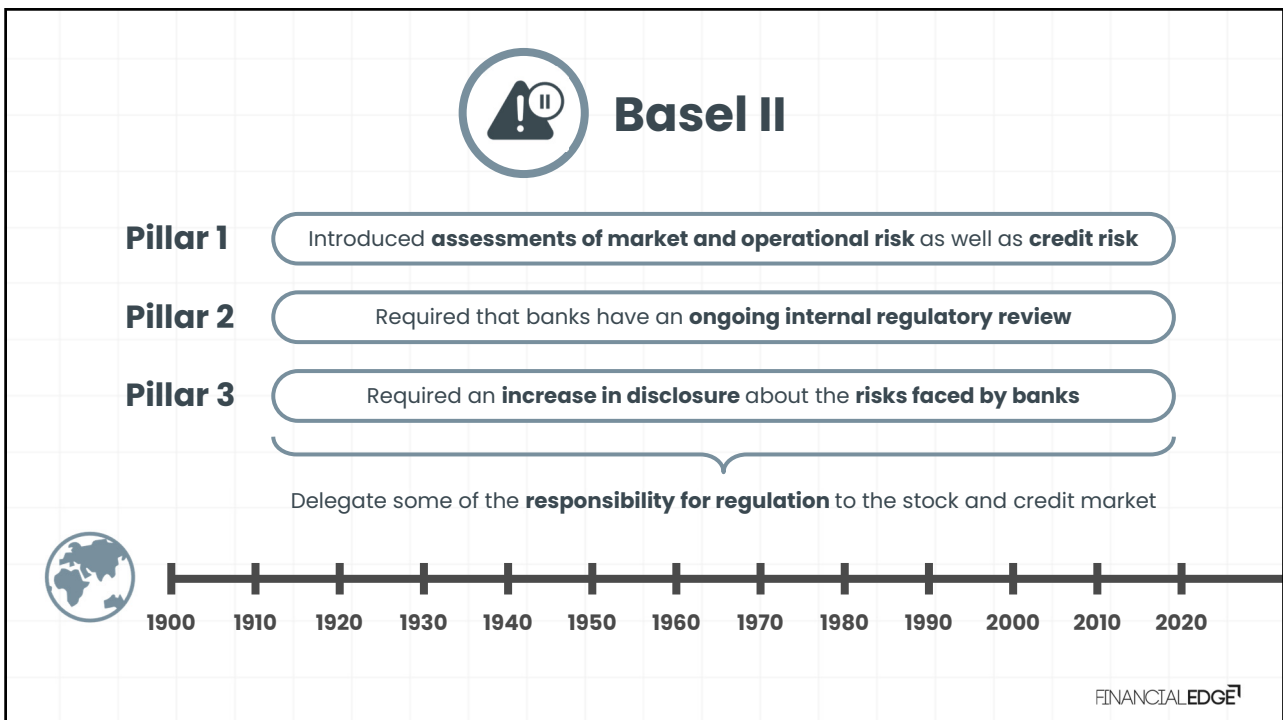
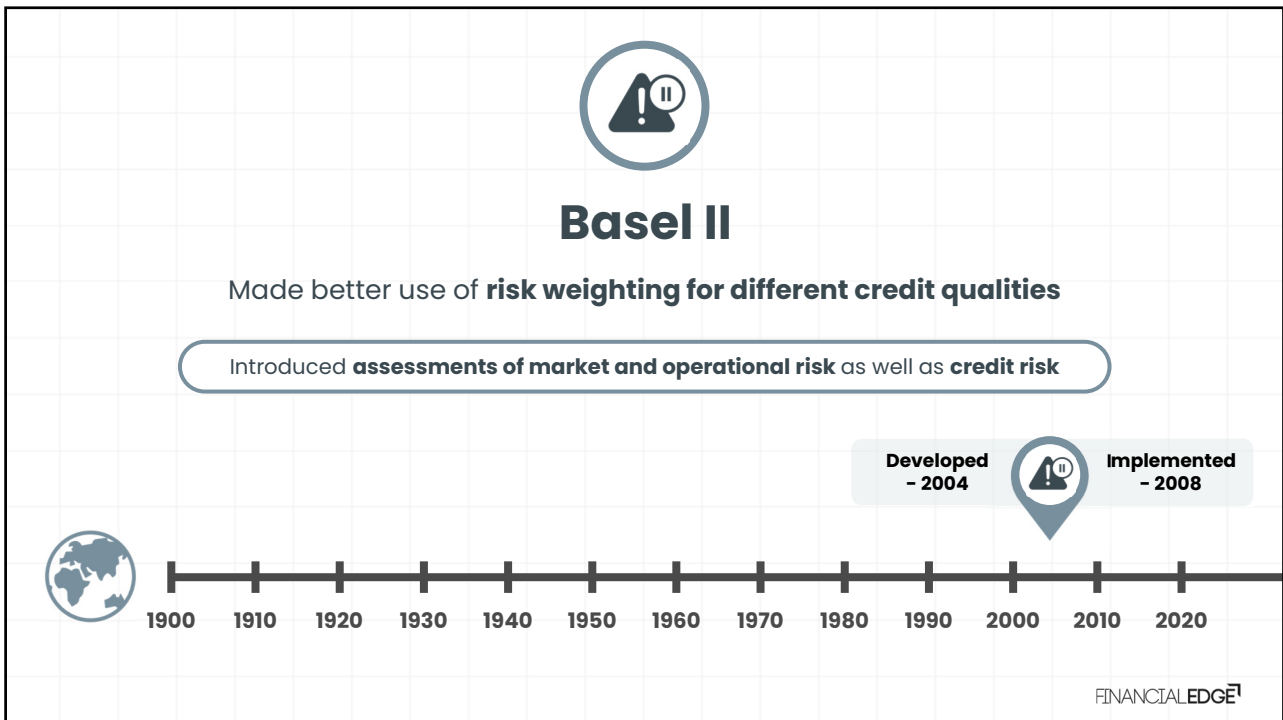


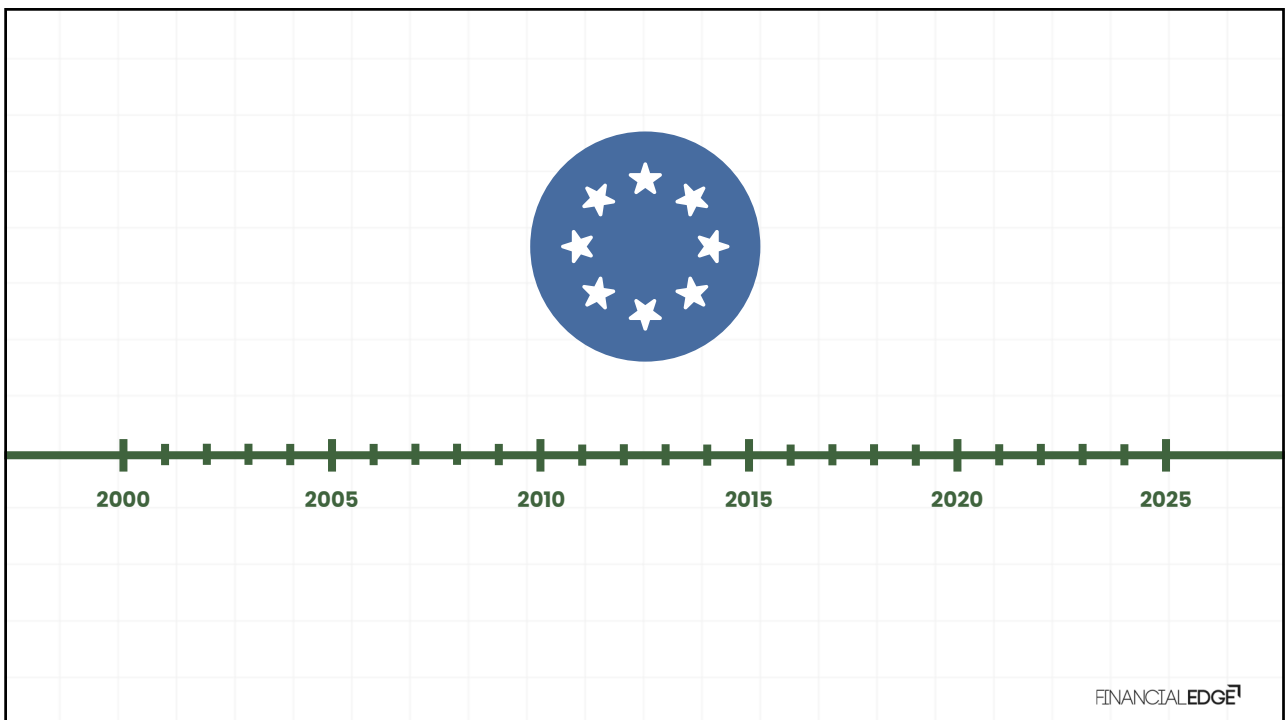
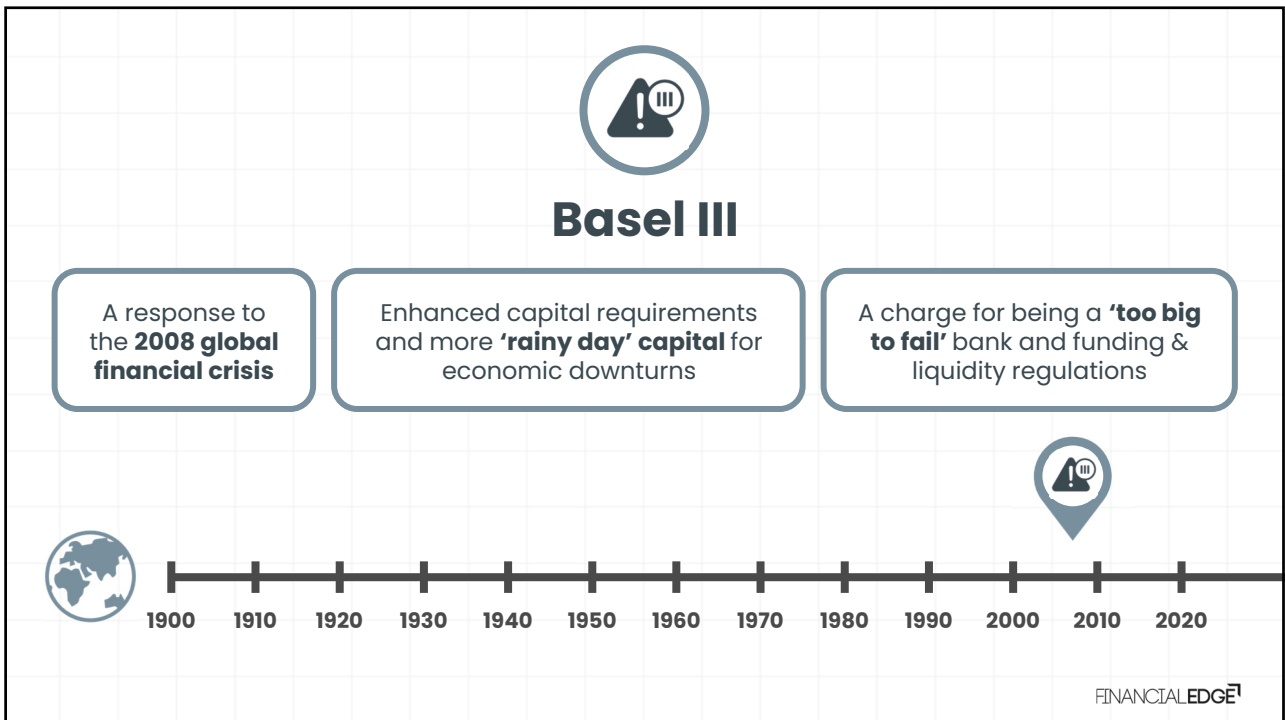


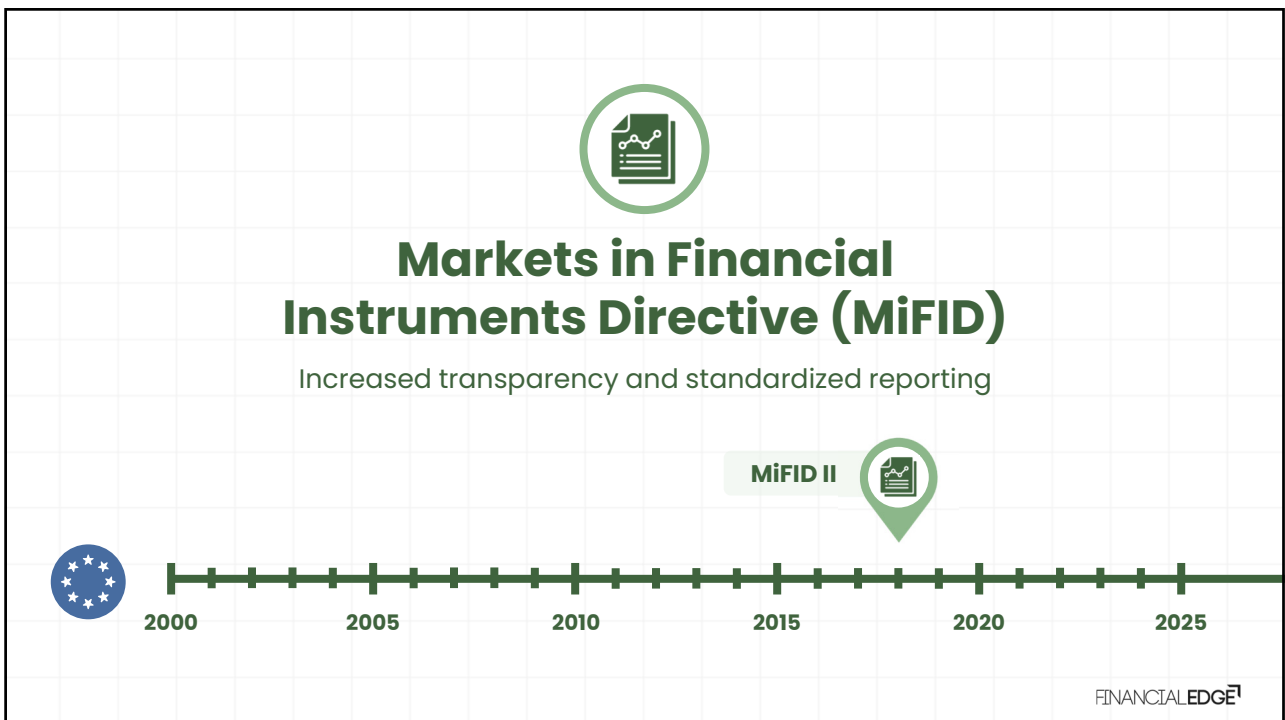
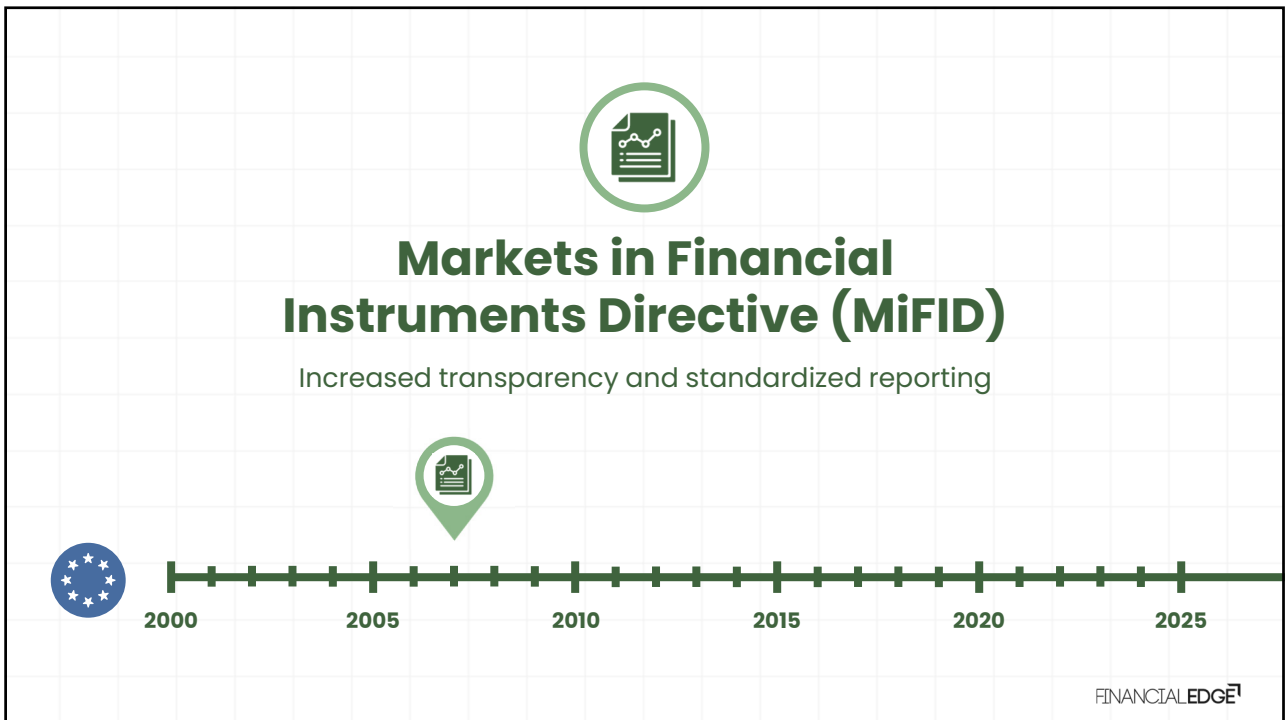


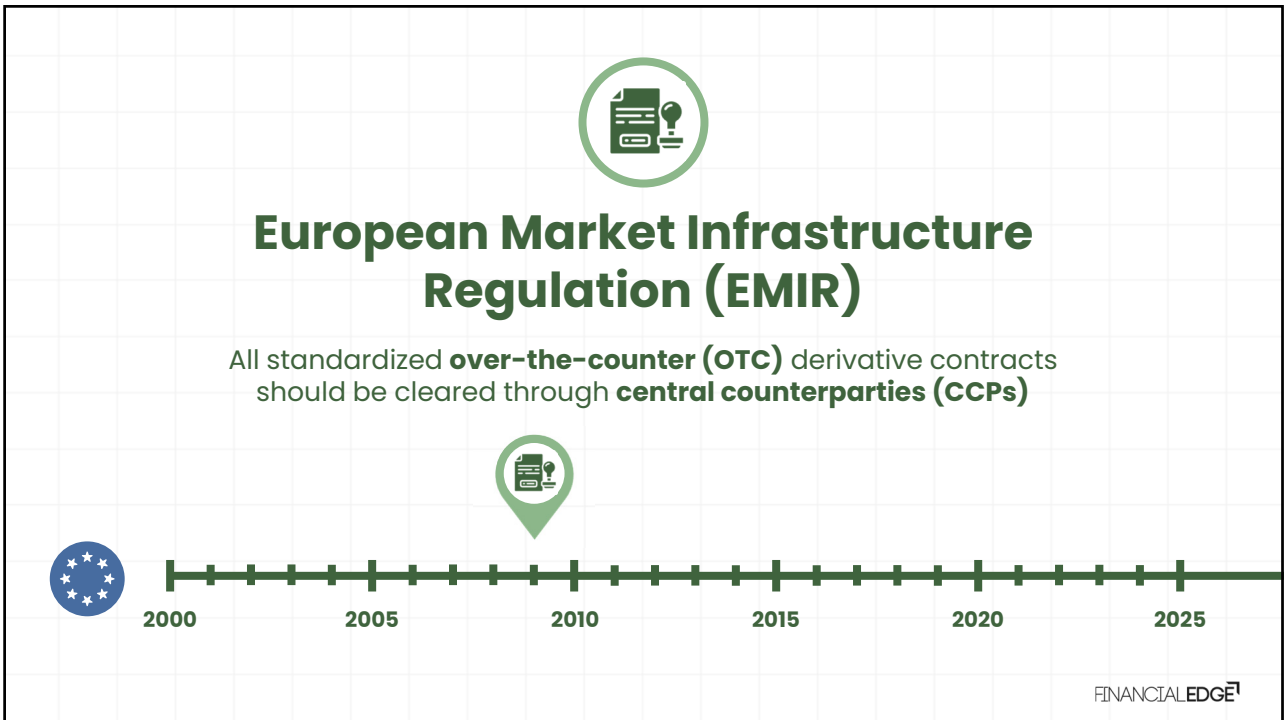
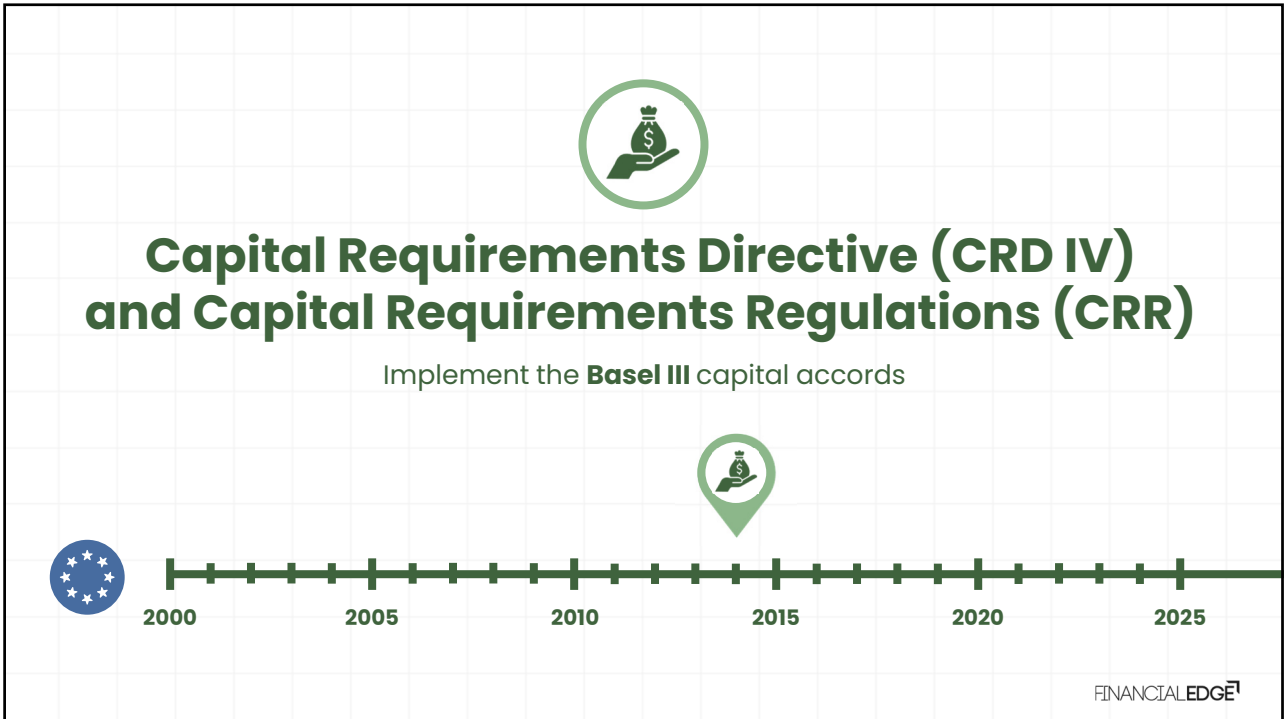














# Regulatory Bodies



=



One bank regulator



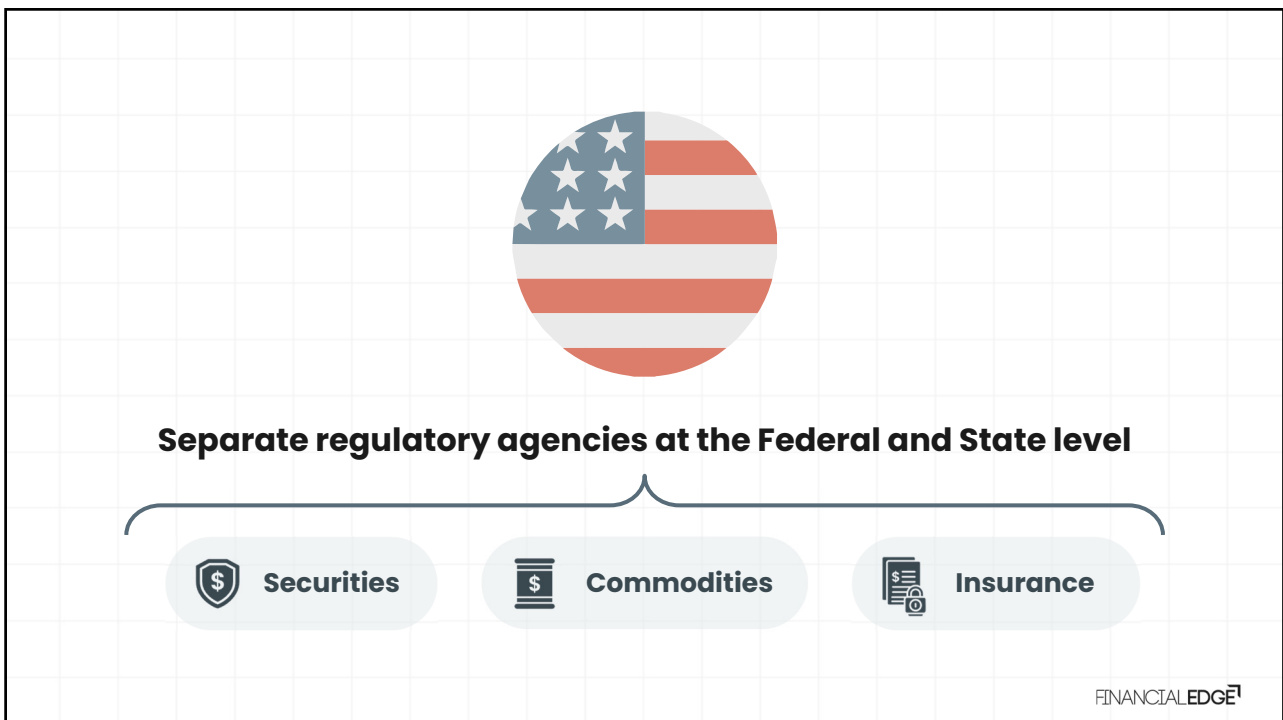
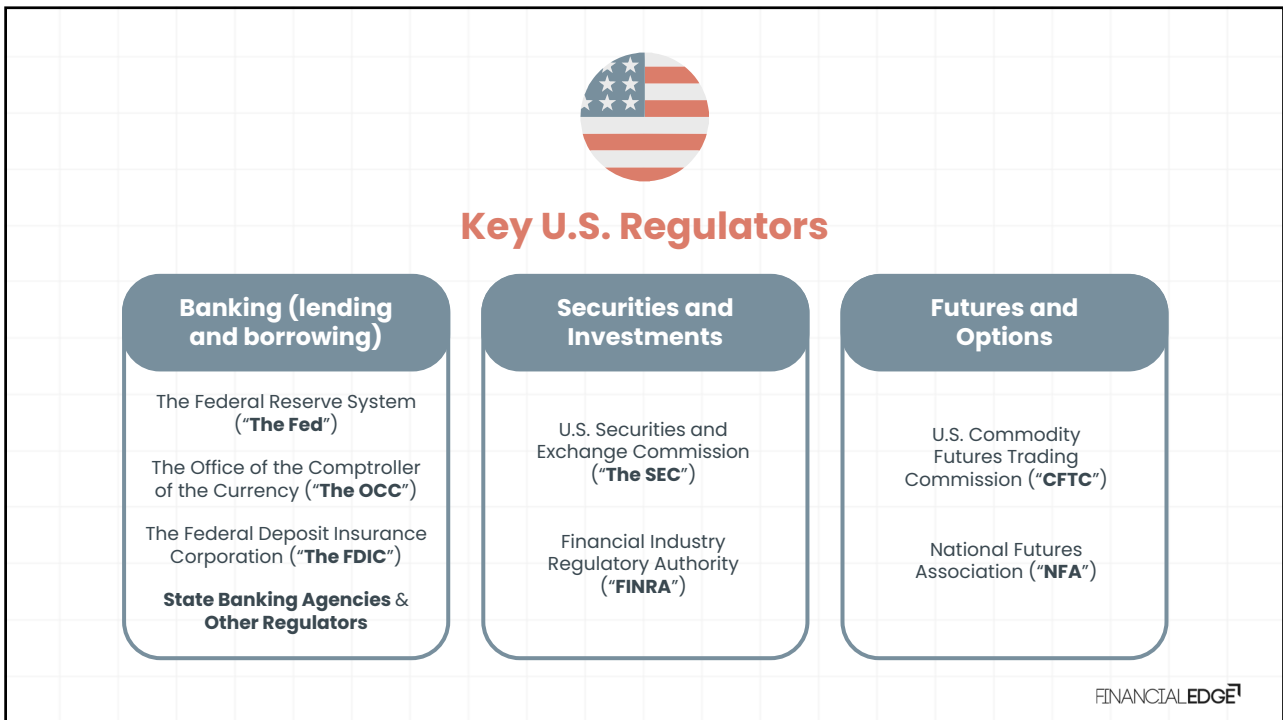
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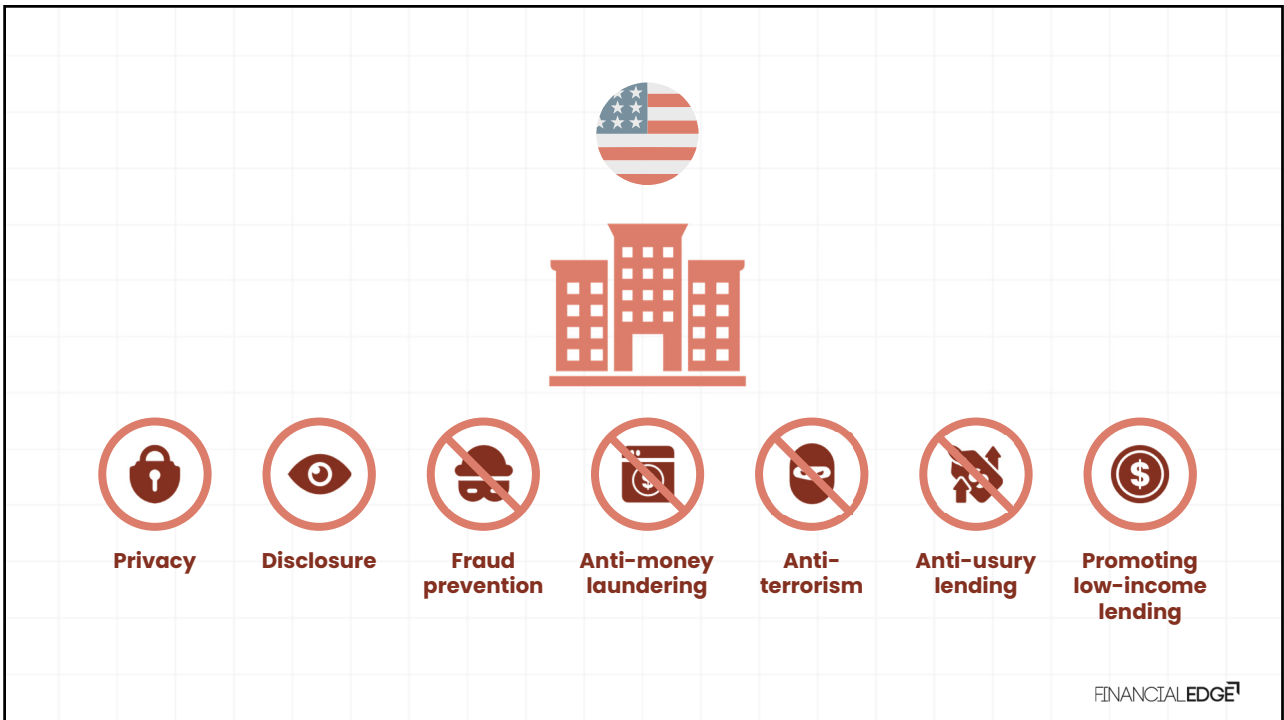
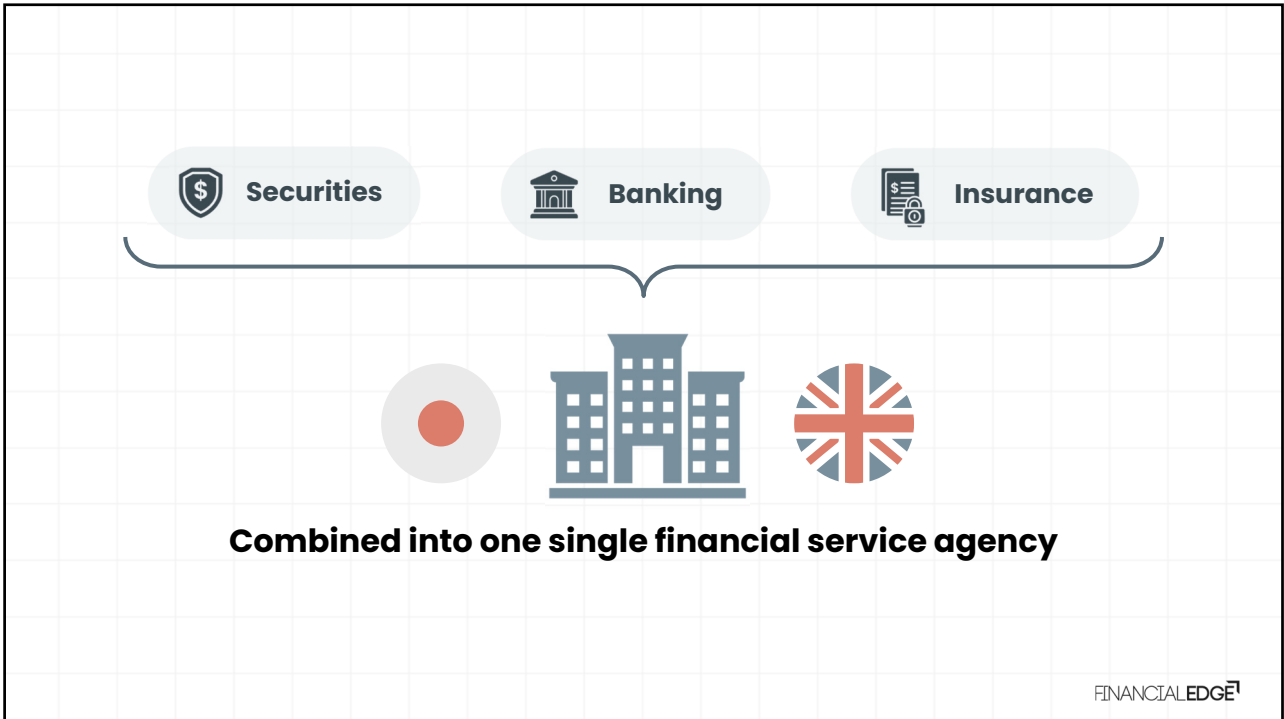


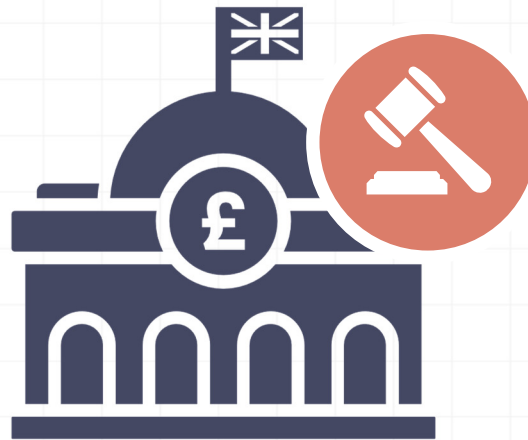
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Regulated at both federal and state level







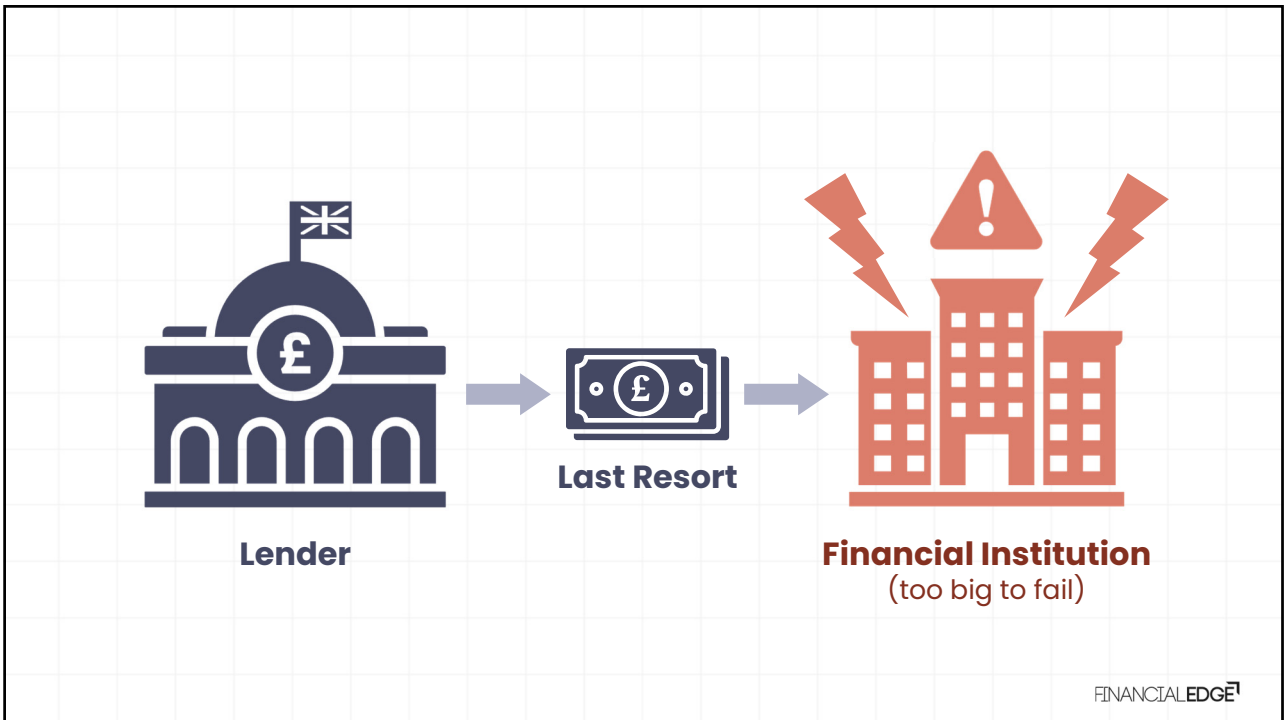
## The Bank of England (BOE)

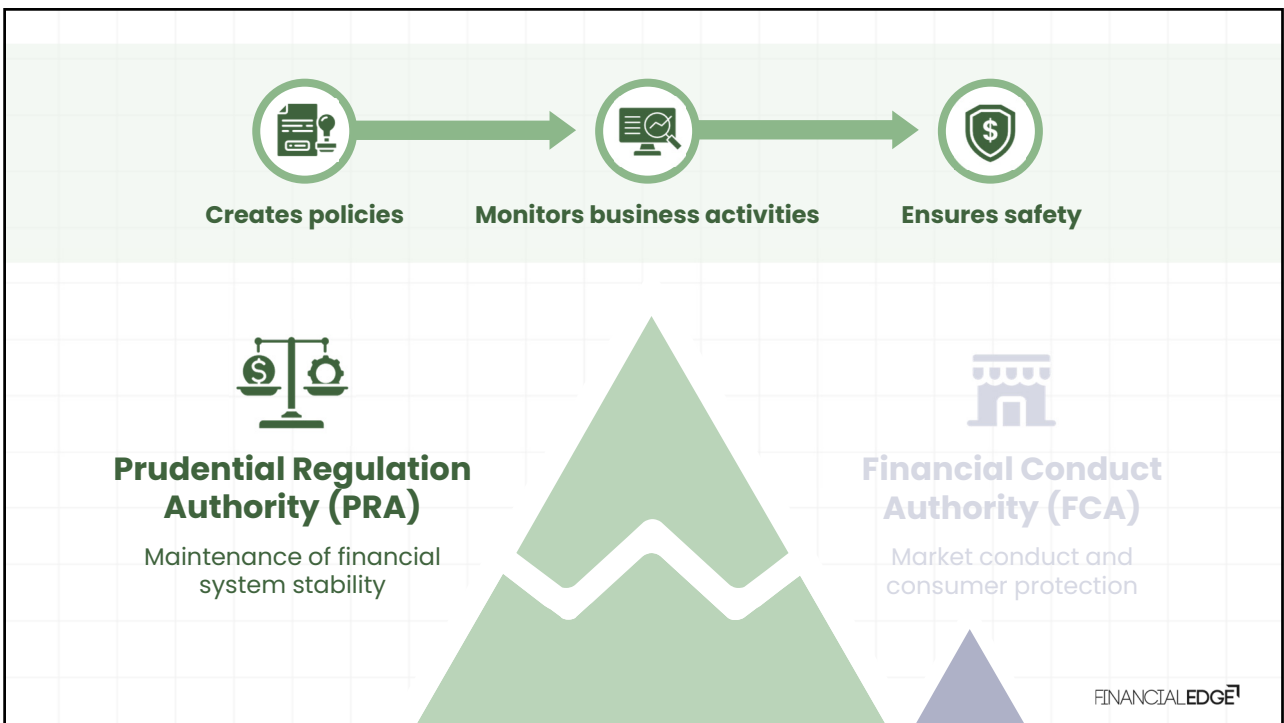
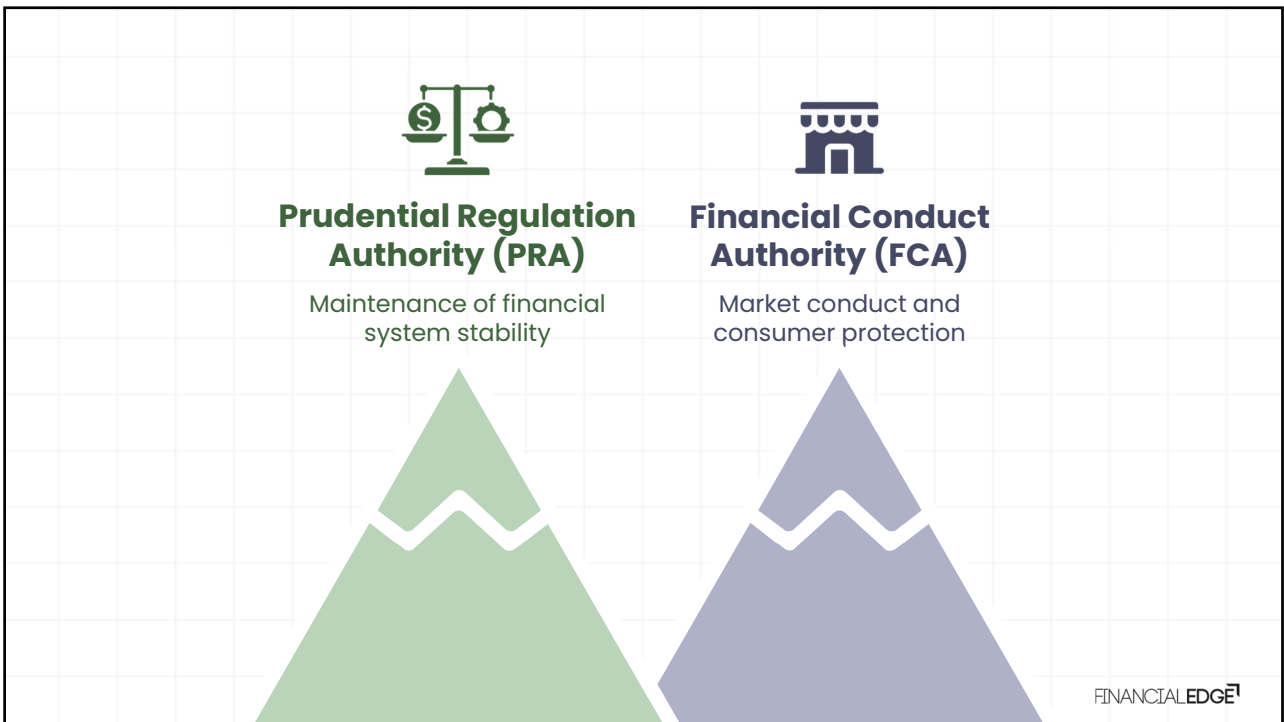
FINANCIALEDGE<sup>7</sup>

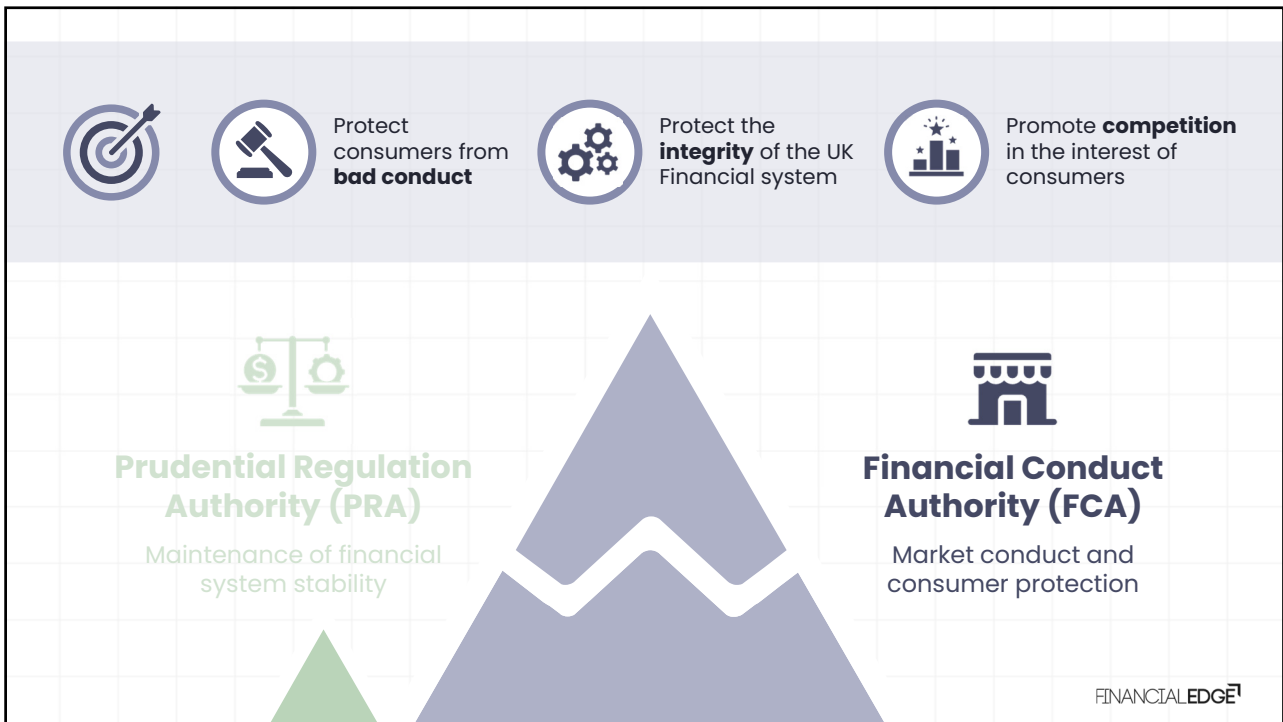
## Preventing Systemic Risk

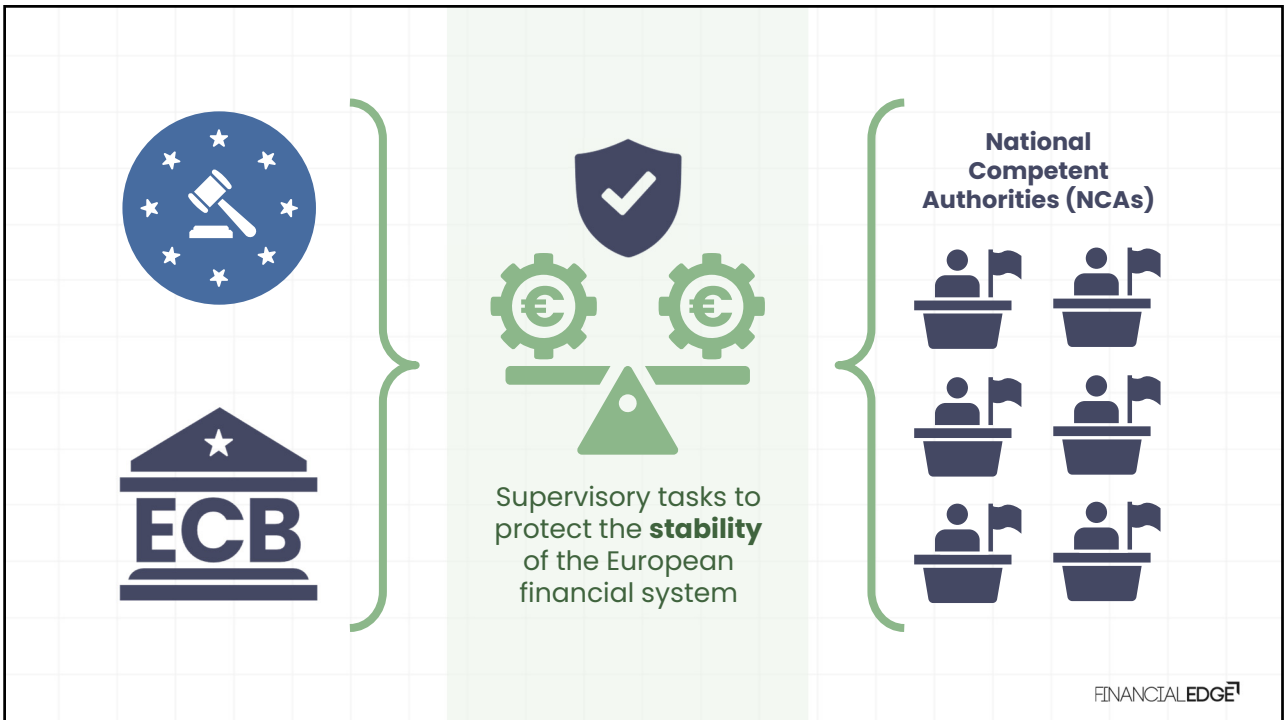
The risk of a major failure of the financial system

FINANCIALEDGE<sup>7</sup>









## Single Supervisory Mechanism Regulation (SSM)



Provide the **legal basis** for the operational arrangements



**European  
Securities and  
Markets Authority  
(ESMA)**



**European Banking  
Authority (EBA)**



**European Insurance  
and Occupational  
Pensions Authority  
(EIOPA)**



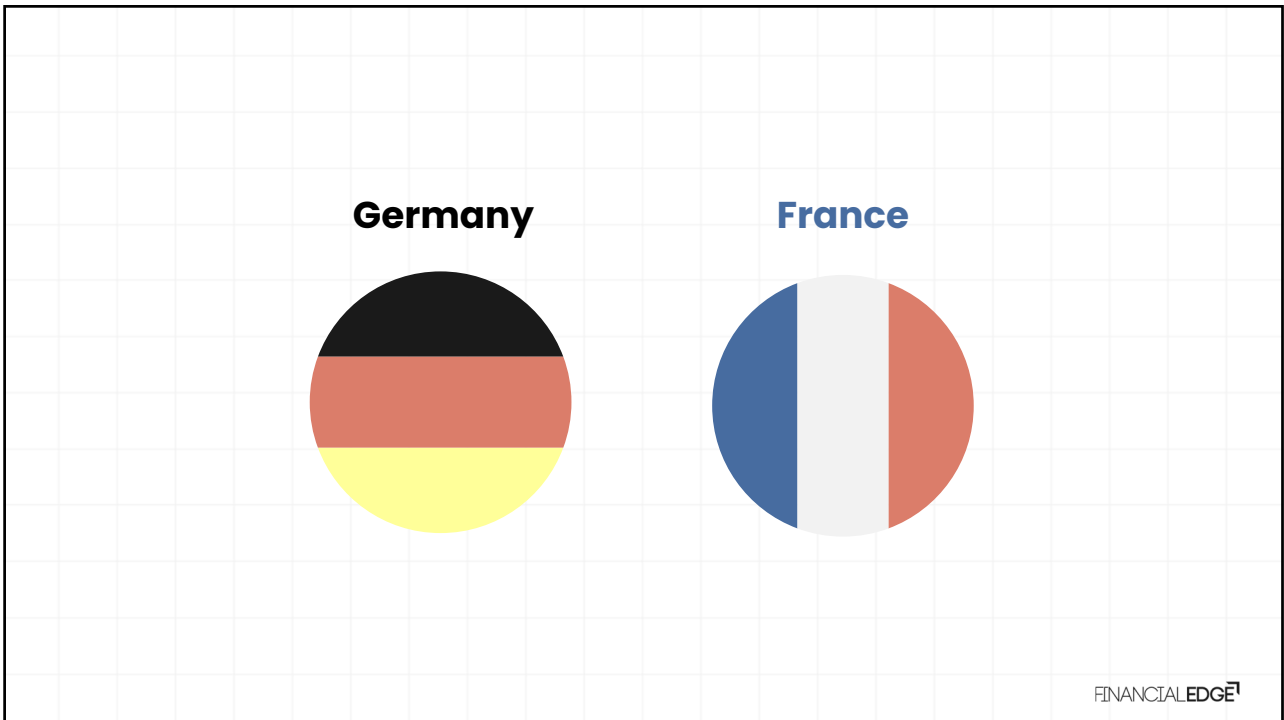
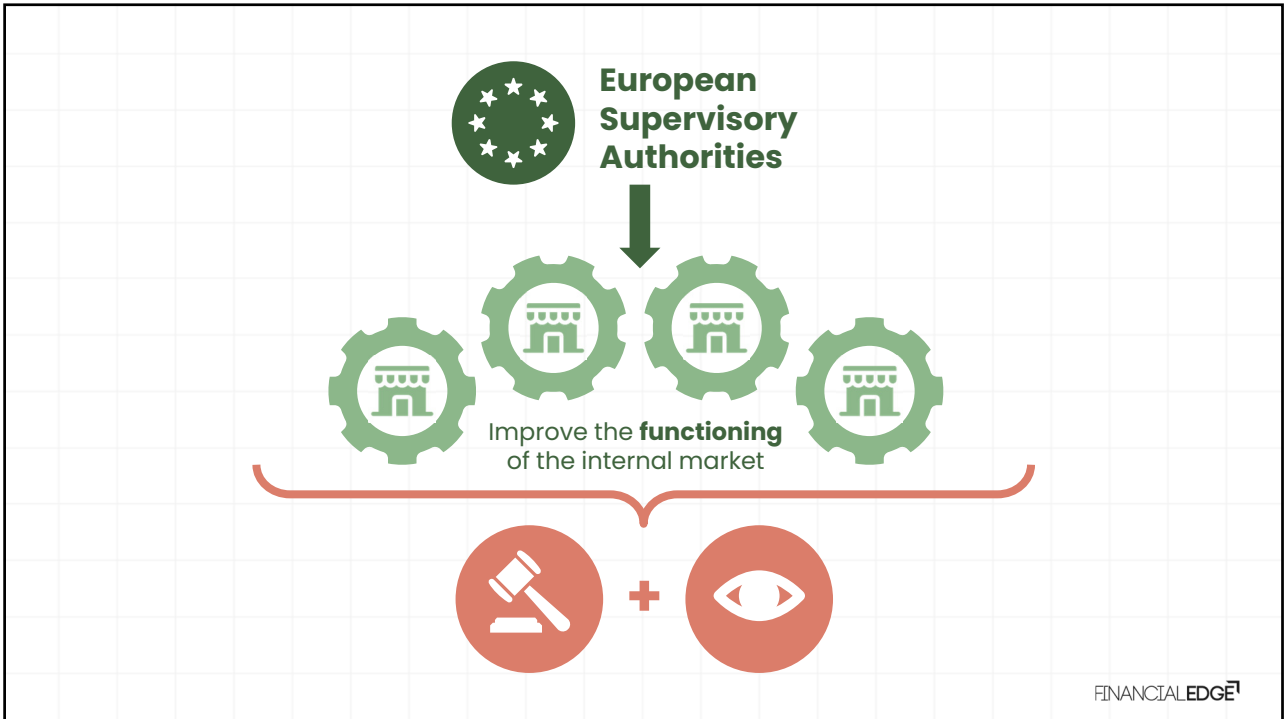
**European  
Systemic Risk  
Board (ESRB)**

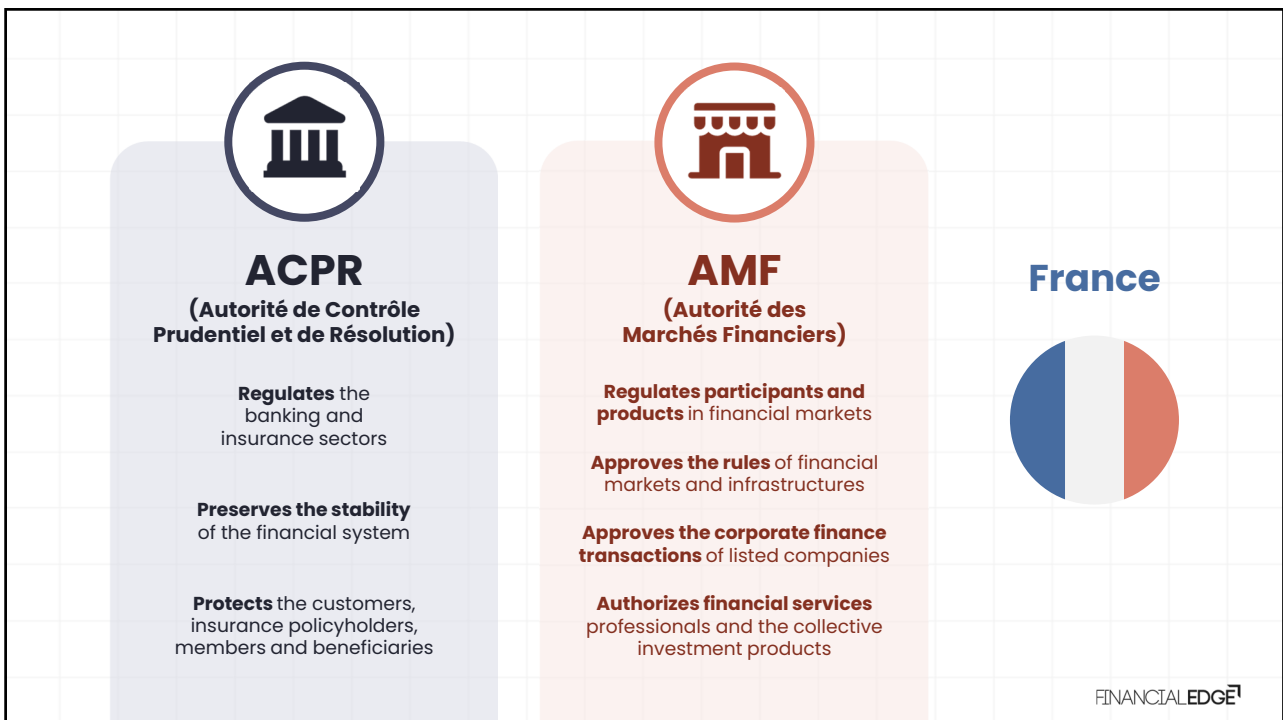
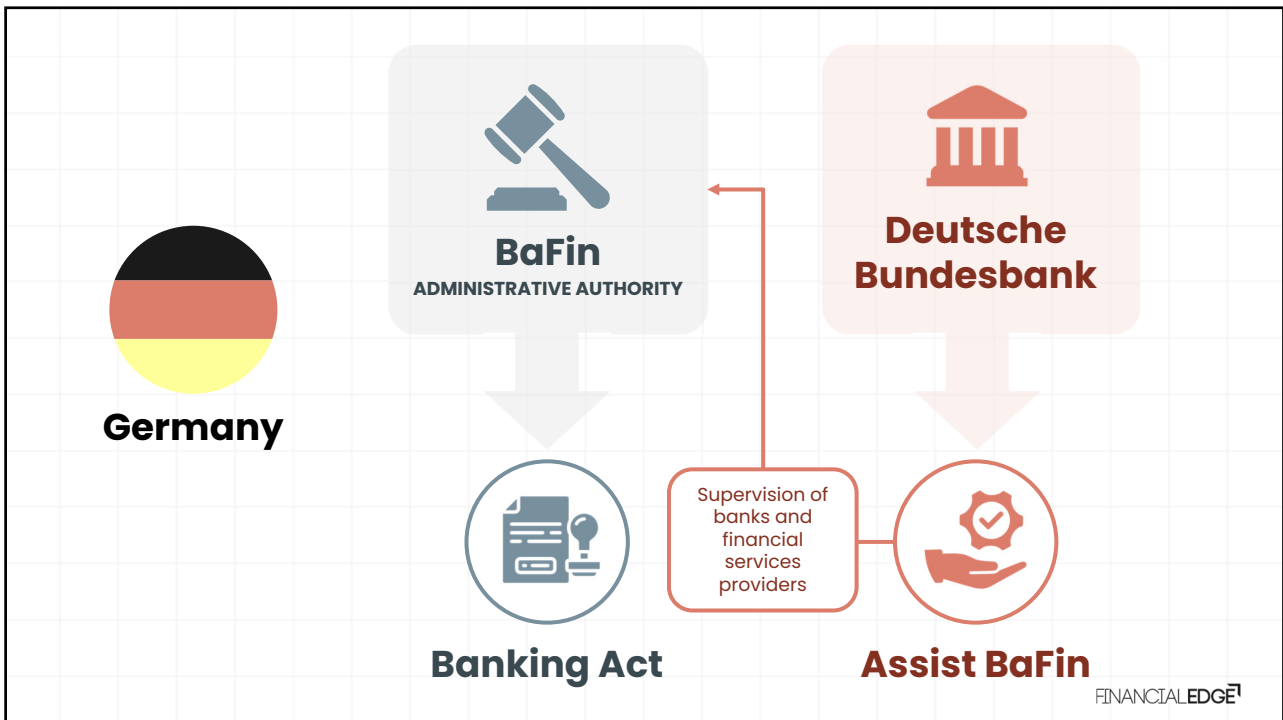


**European  
Supervisory  
Authorities**



**National  
Supervisory  
Authorities**







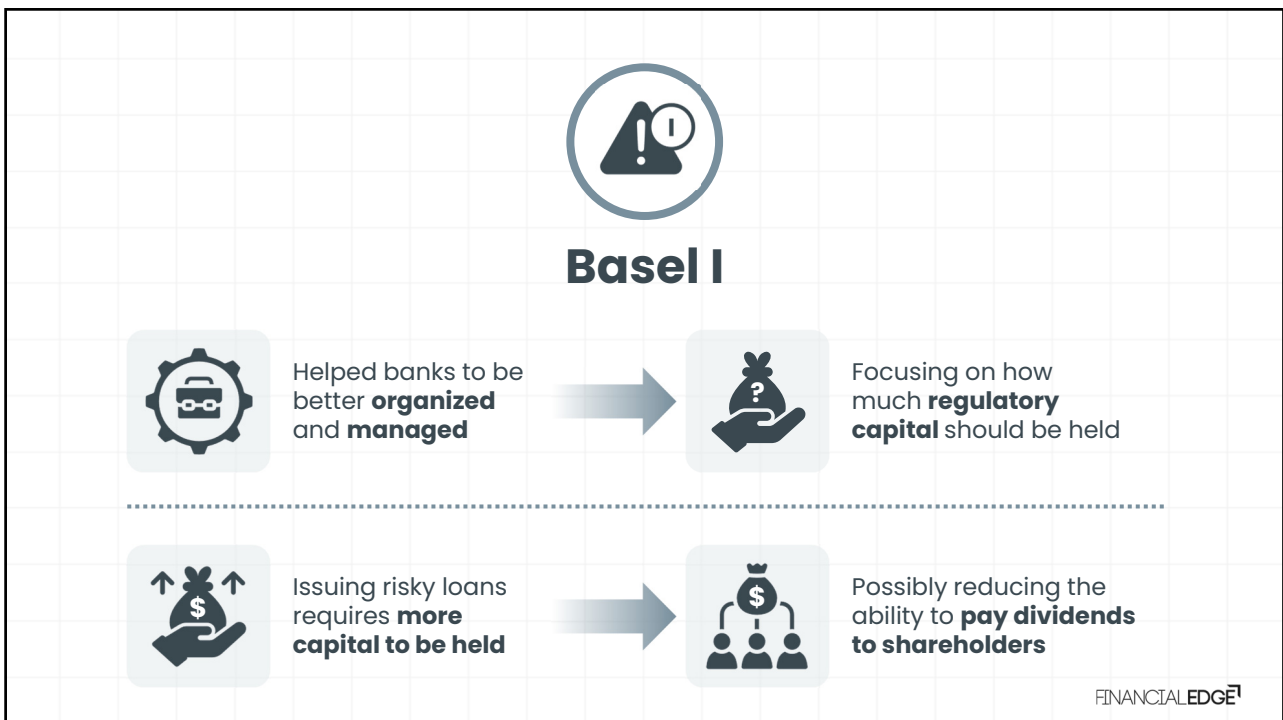
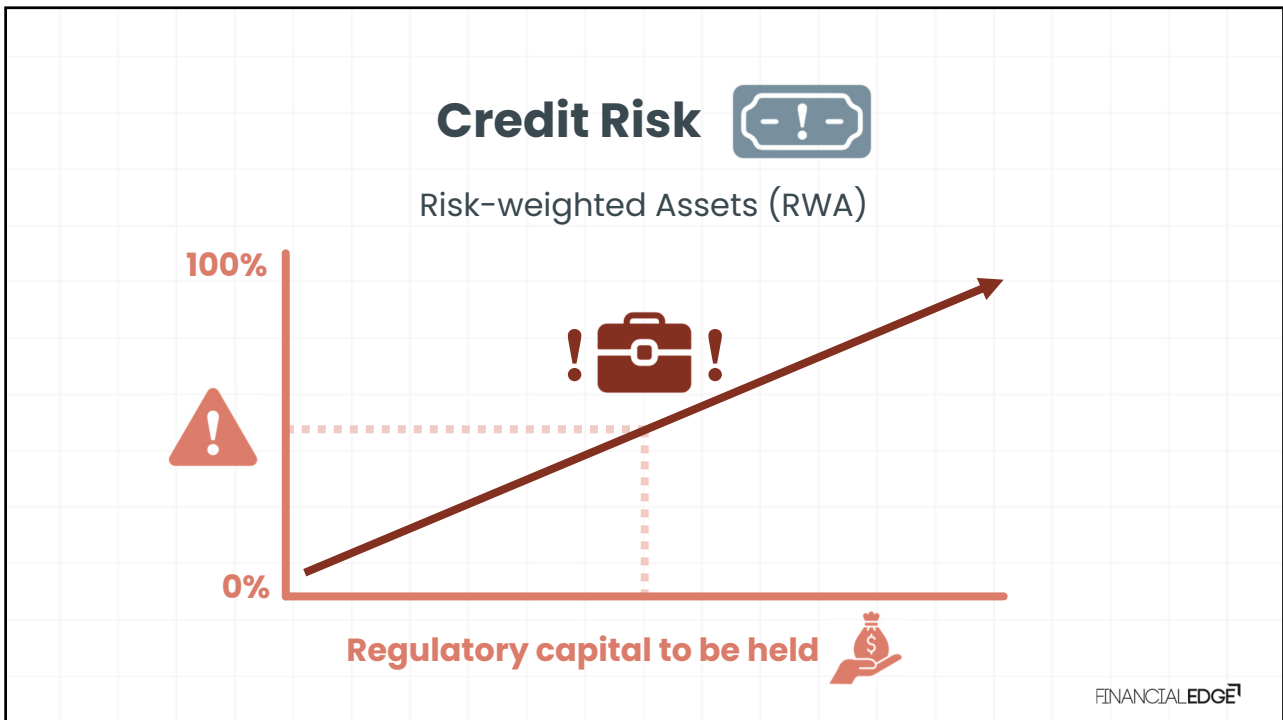
## Basel I – RWA

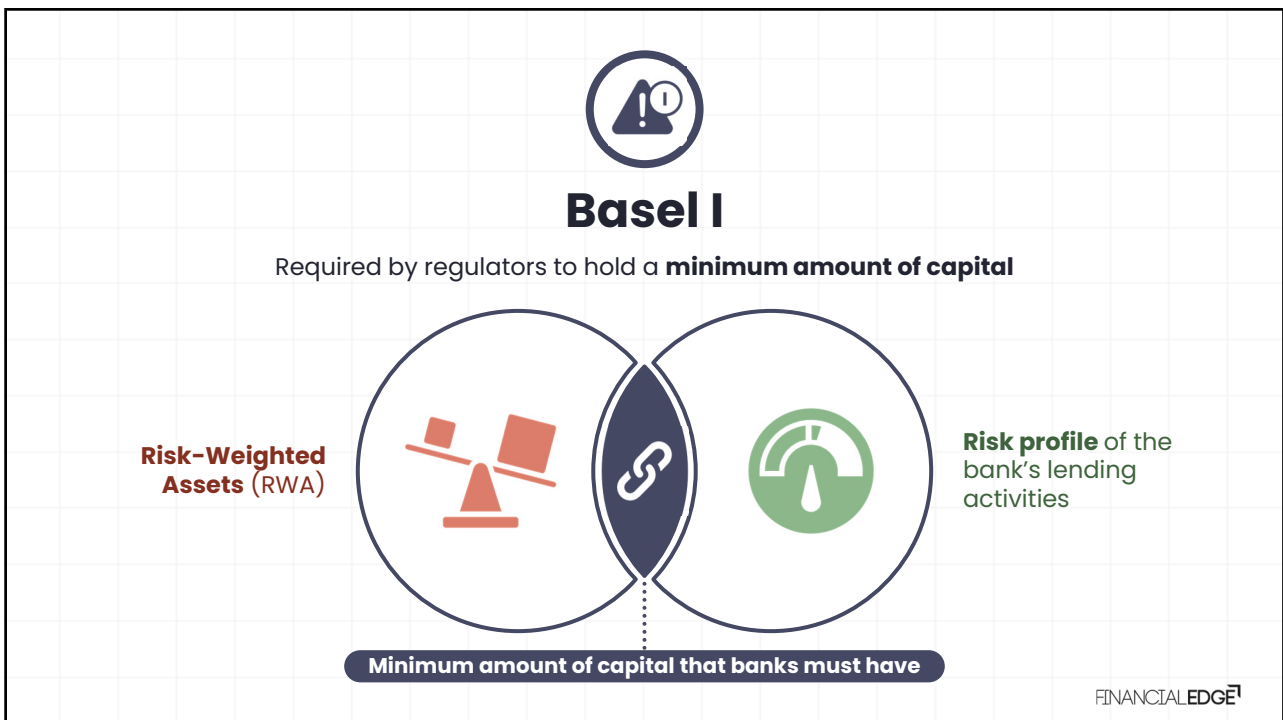
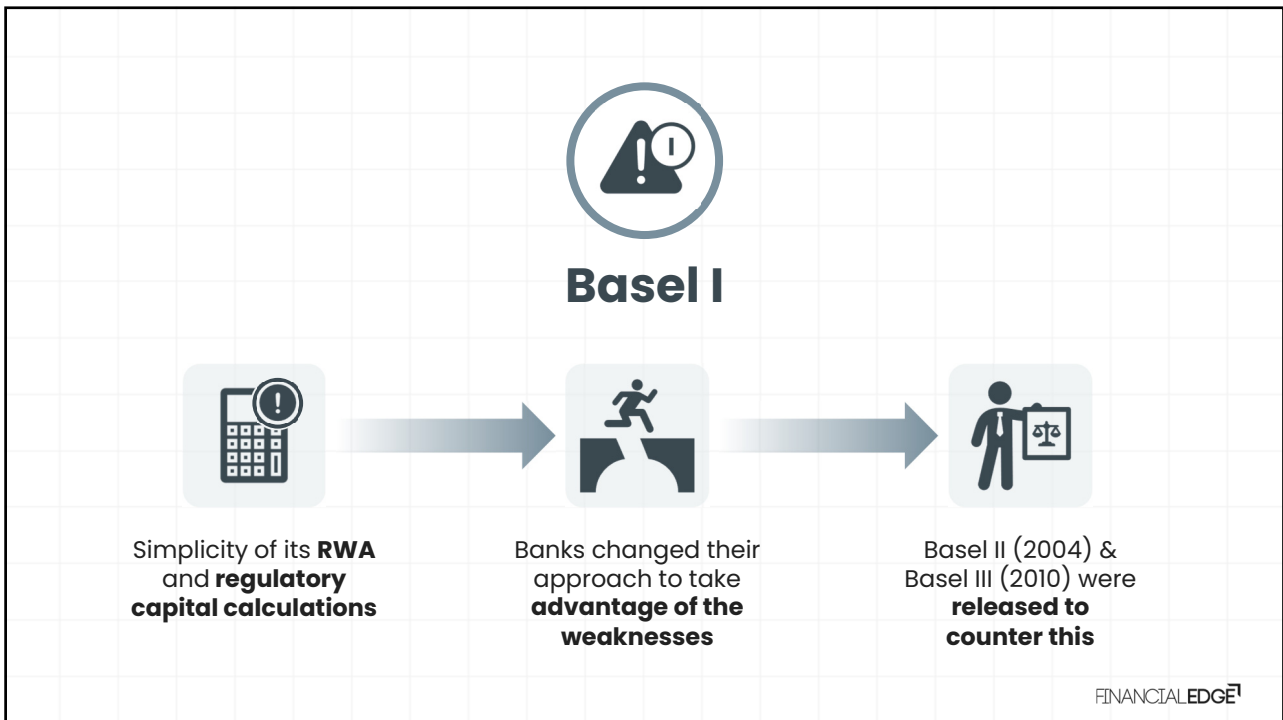
FINANCIALEDGE<sup>1</sup>**Basel I****1988****Basel Committee on Banking Supervision (BCBS)**

Central bankers and regulators from around the world

FINANCIALEDGE<sup>1</sup>







### Basel I Risk Weightings

| Assets                                |       | Weighting | RWA   |                  |
|---------------------------------------|-------|-----------|-------|------------------|
| Cash                                  | 40.0  | 0.0%      | 0.0   | = 40.0 x 0.0%    |
| Government Bonds                      | 100.0 | 0.0%      | 0.0   | = 100.0 x 0.0%   |
| Corporate Bonds                       | 200.0 | 100.0%    | 200.0 | = 200.0 x 100.0% |
| Mortgages                             | 100.0 | 50.0%     | 50.0  | = 100.0 x 50.0%  |
| Total                                 | 440.0 |           | 250.0 |                  |
| Shareholders equity                   |       |           | 30.0  |                  |
| Goodwill                              |       |           | 10.0  |                  |
| Tier 1 Capital                        |       |           | 20.0  |                  |
| Tier 2 Capital                        |       |           | 30.0  |                  |
| Total Capital                         |       |           | 50.0  |                  |
| Tier 1 Capital / Risk Weighted Assets |       |           | 8.0%  | = 20.0 / 250.0   |
| Total Capital / Risk Weighted Assets  |       |           | 20.0% | = 50.0 / 250.0   |

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**Regulatory Capital Ratios** =  $\frac{\text{Regulatory Capital}}{\text{Risk Weighted Assets (RWA)}}$

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**Shareholders' equity - Goodwill = Tier 1 Capital**

**30.0 - 10.0 = 20.0**

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**Tier 1 Capital + Tier 2 Capital = Total Capital**

**20.0 + 30.0 = 50.0**

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$$\text{Tier 1 Capital Ratio} = \frac{20.0 \text{ (T1 Capital)}}{250.0 \text{ (Risk Weighted Assets)}} = 8.0\%$$

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$$\text{Total Capital Ratio} = \frac{50.0 \text{ (Total Capital)}}{250.0 \text{ (Risk Weighted Assets)}} = 20.0\%$$



# Basel II - Three Pillars




## Basel II

Developed in **2004** with full implementation required by the **BCBS** by **2008**


**Basel Committee on Banking Supervision (BSBS)**



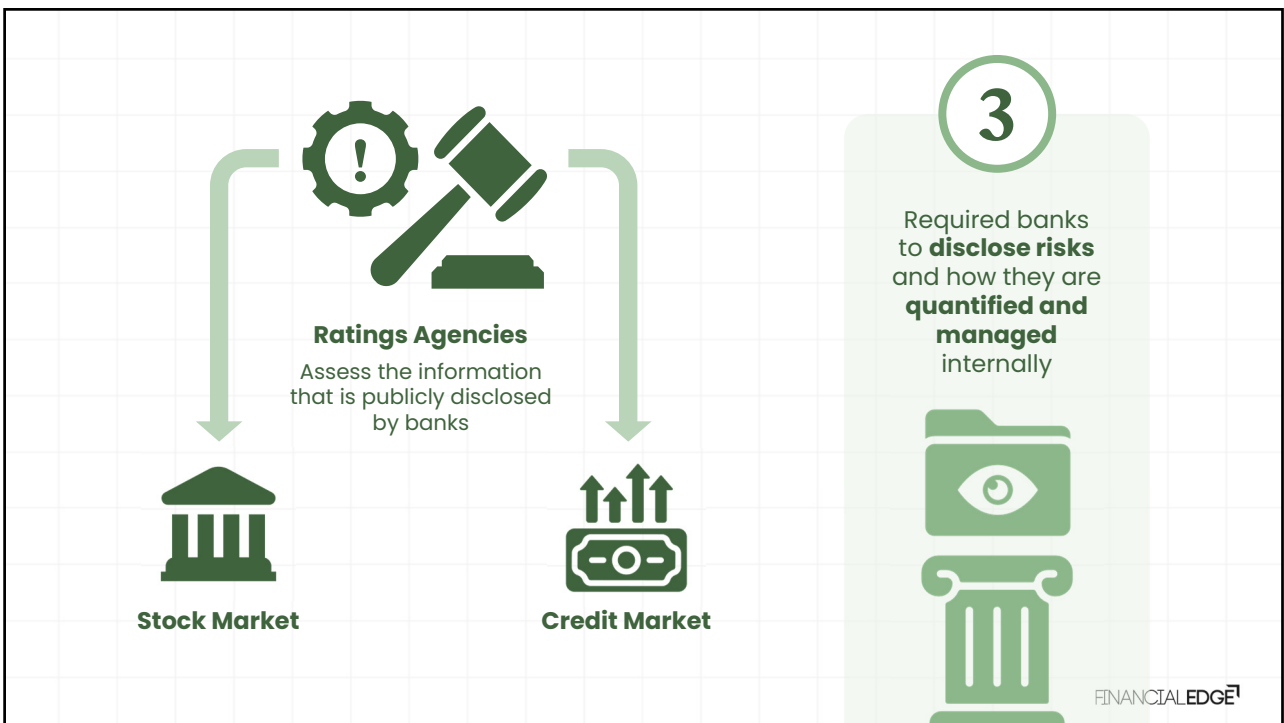
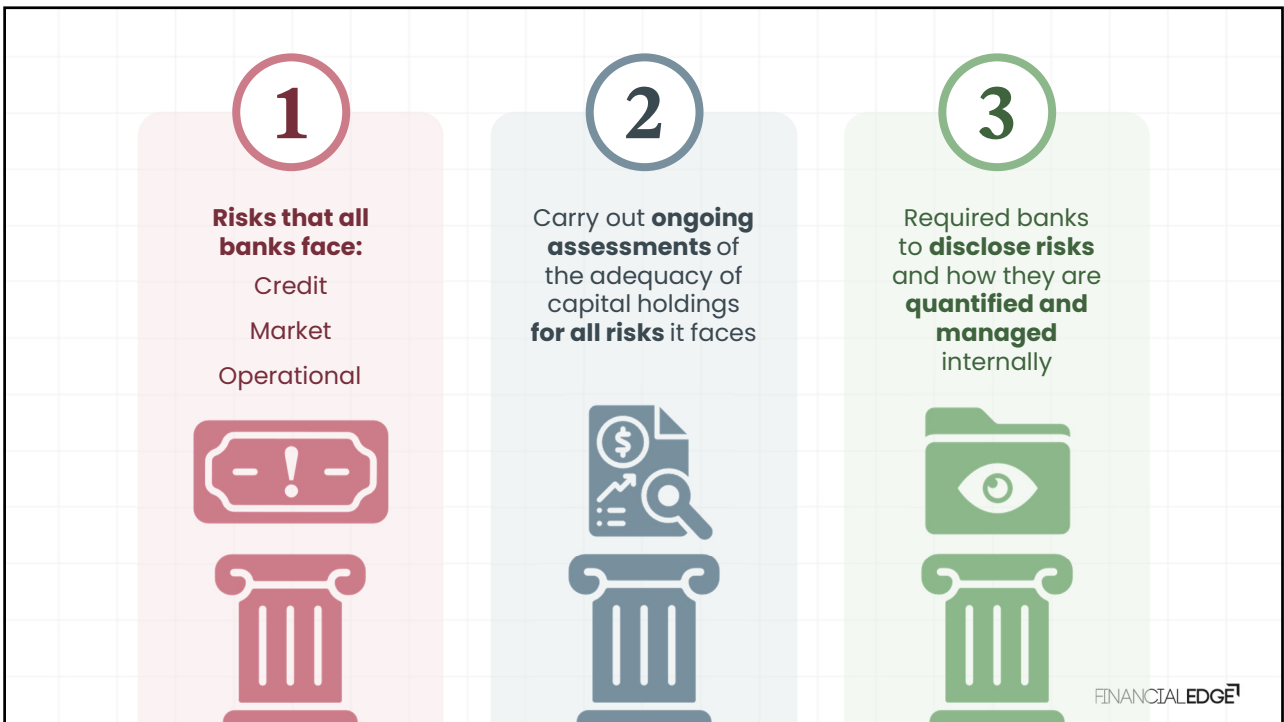
**To be a more sophisticated system than Basel I**

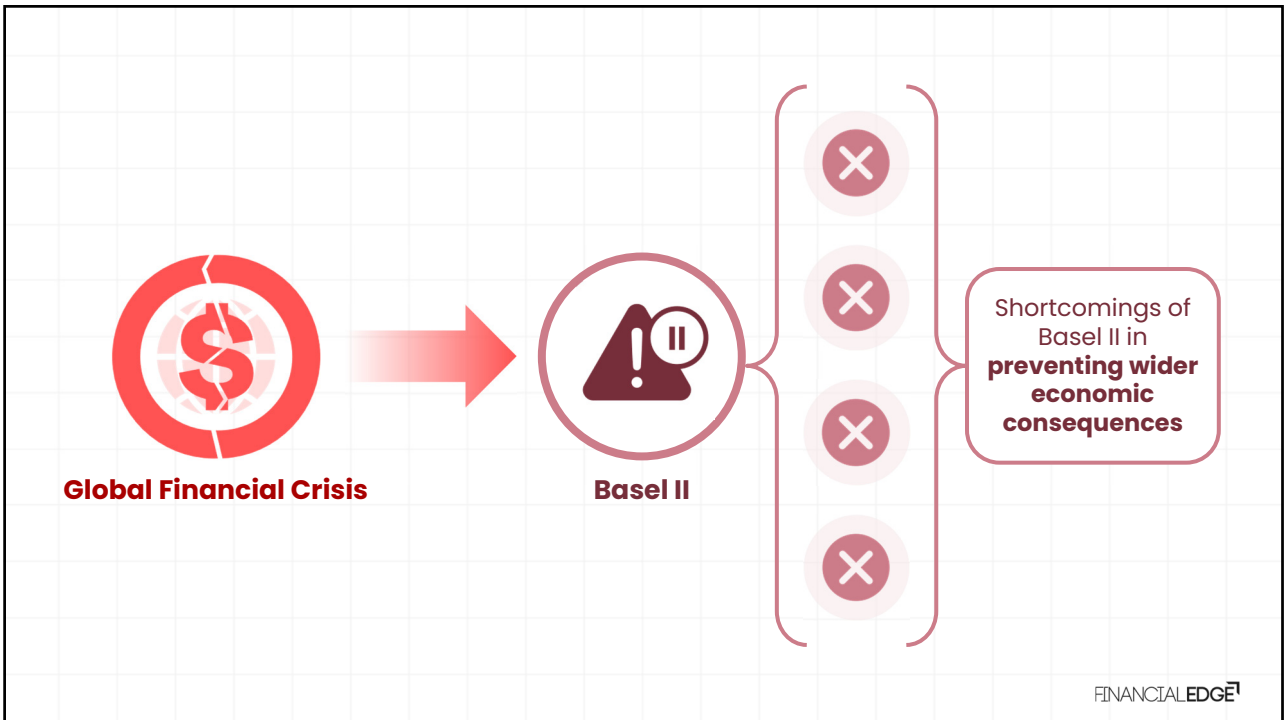


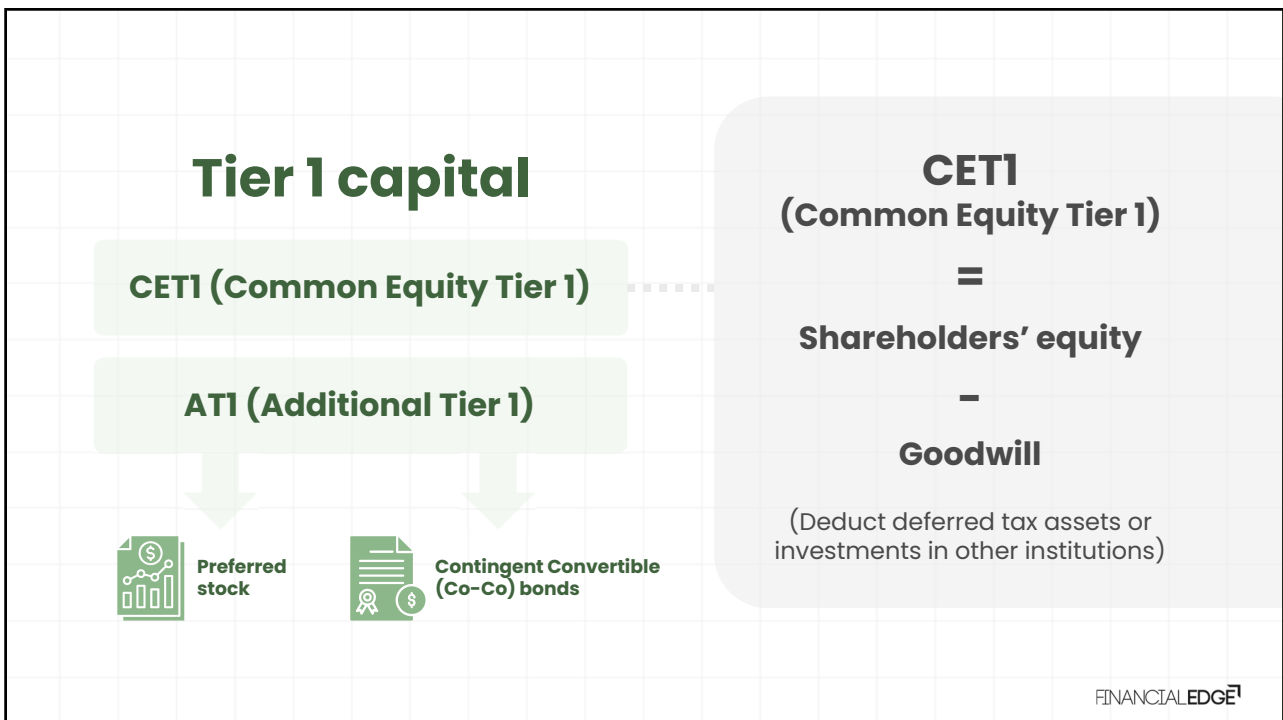
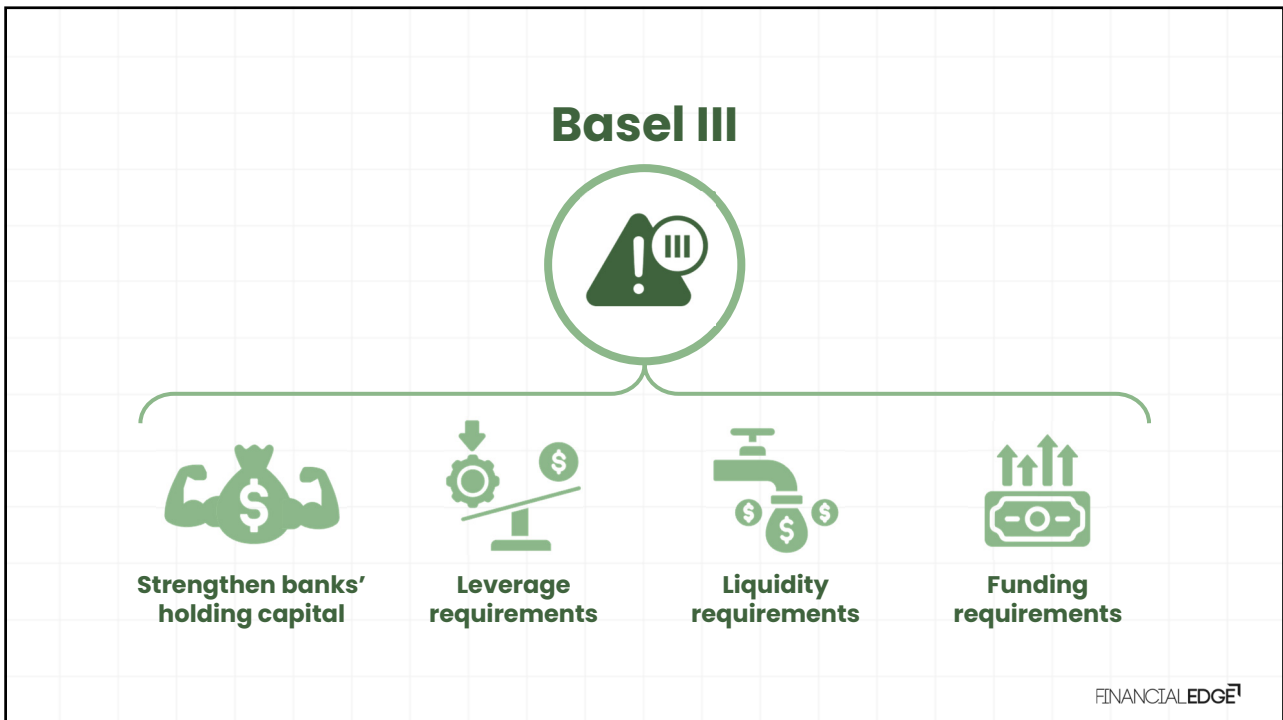
A more **sophisticated** and **nuanced** approach to **calculating risk-weighted assets (RWAs)** for credit risk

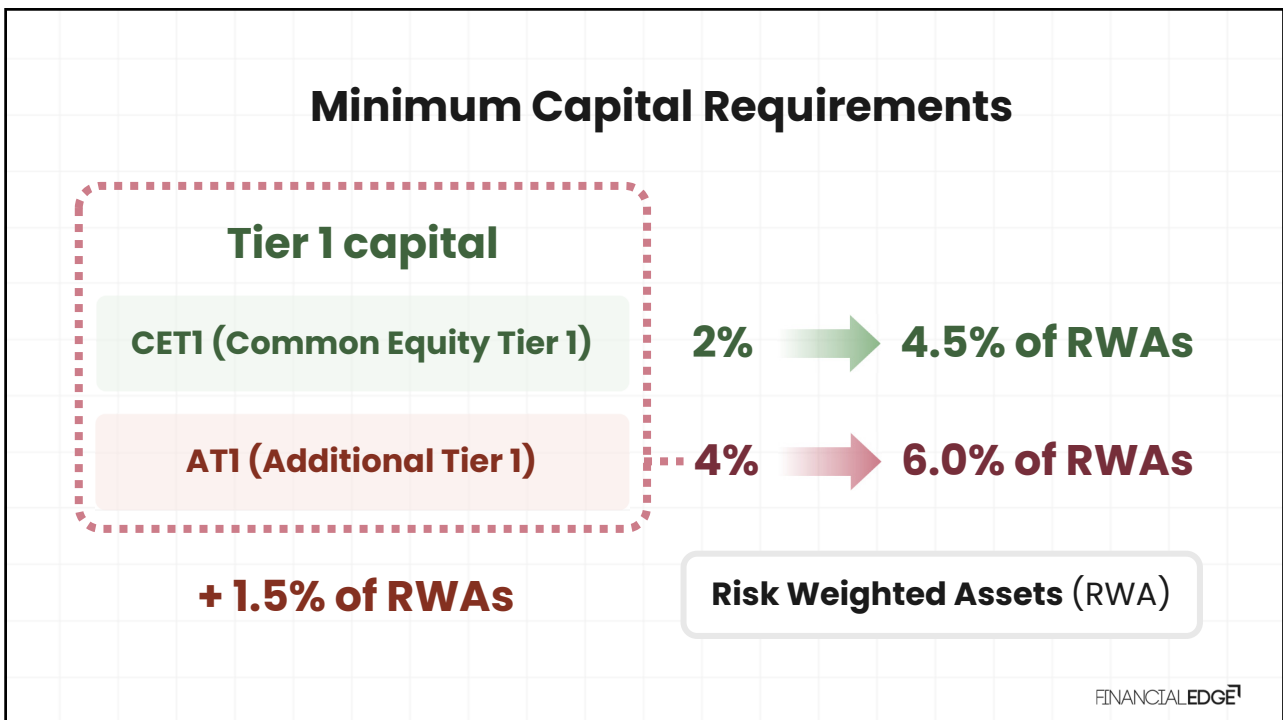
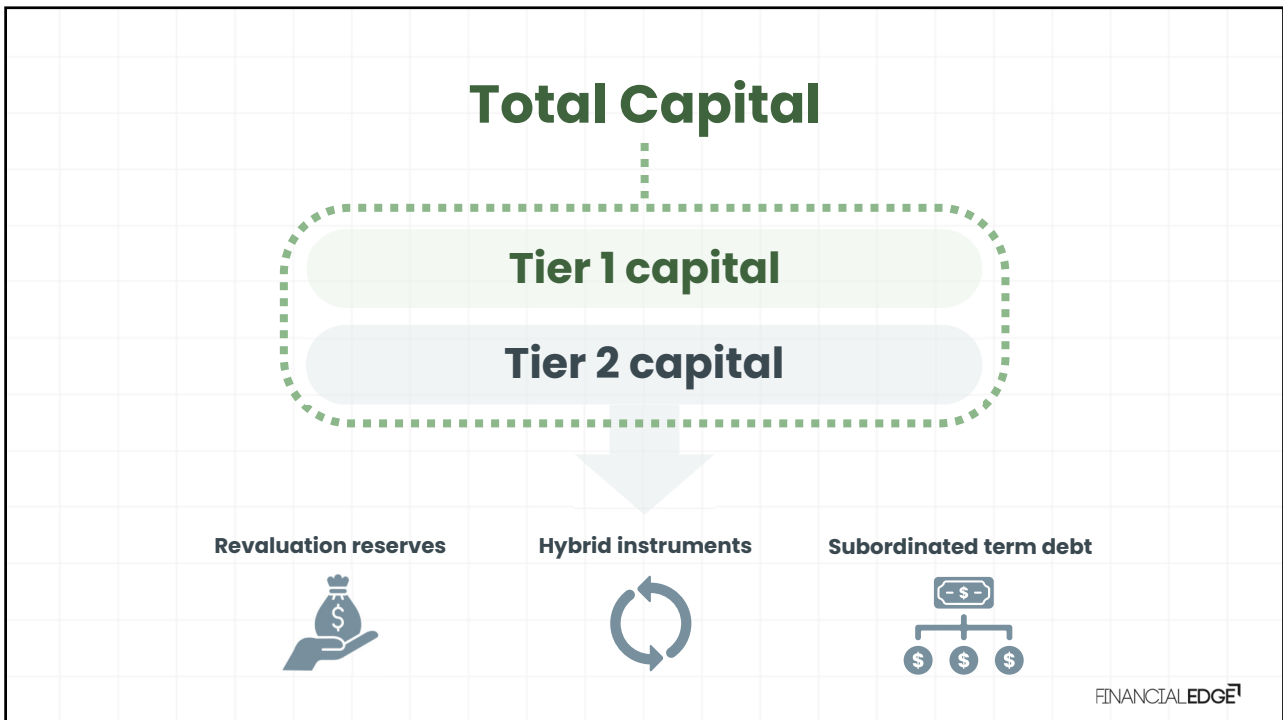


Allowing banks to determine their own **internal calculations** of credit RWAs









## Minimum Capital Requirements

### Tier 1 capital

CET1 (Common Equity Tier 1)

AT1 (Additional Tier 1)

### Tier 2 capital

Revaluation reserves

Hybrid instruments

Subordinated term debt

>8.0%

## Capital Conservation Buffer

Common Equity Tier 1 (CET1)

Risk Weighted Assets (RWAs)

Additional CET1 >2.5% of RWAs

Dividends



Bonuses





## Countercyclical Capital Buffer (CCyB)

Designed to counter **procyclicality** in the financial system

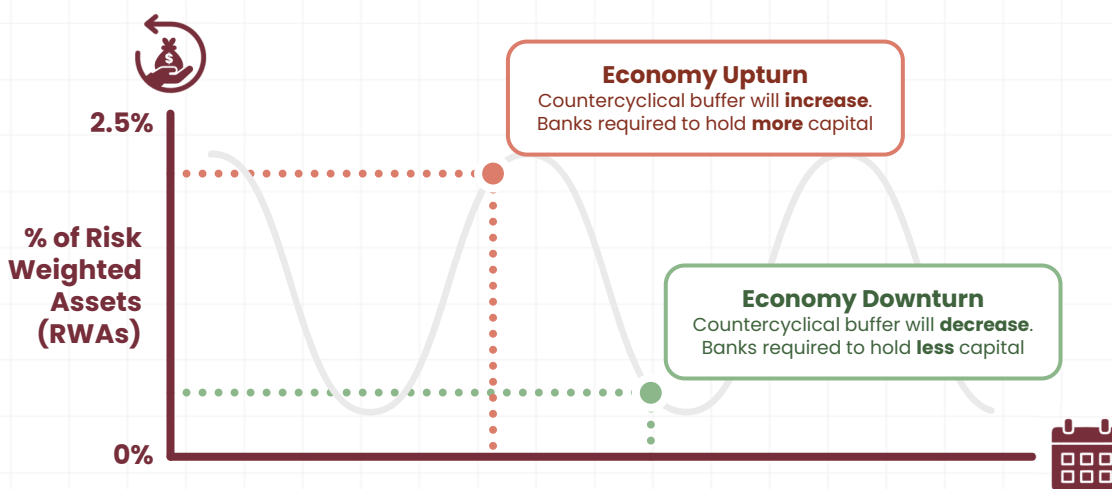


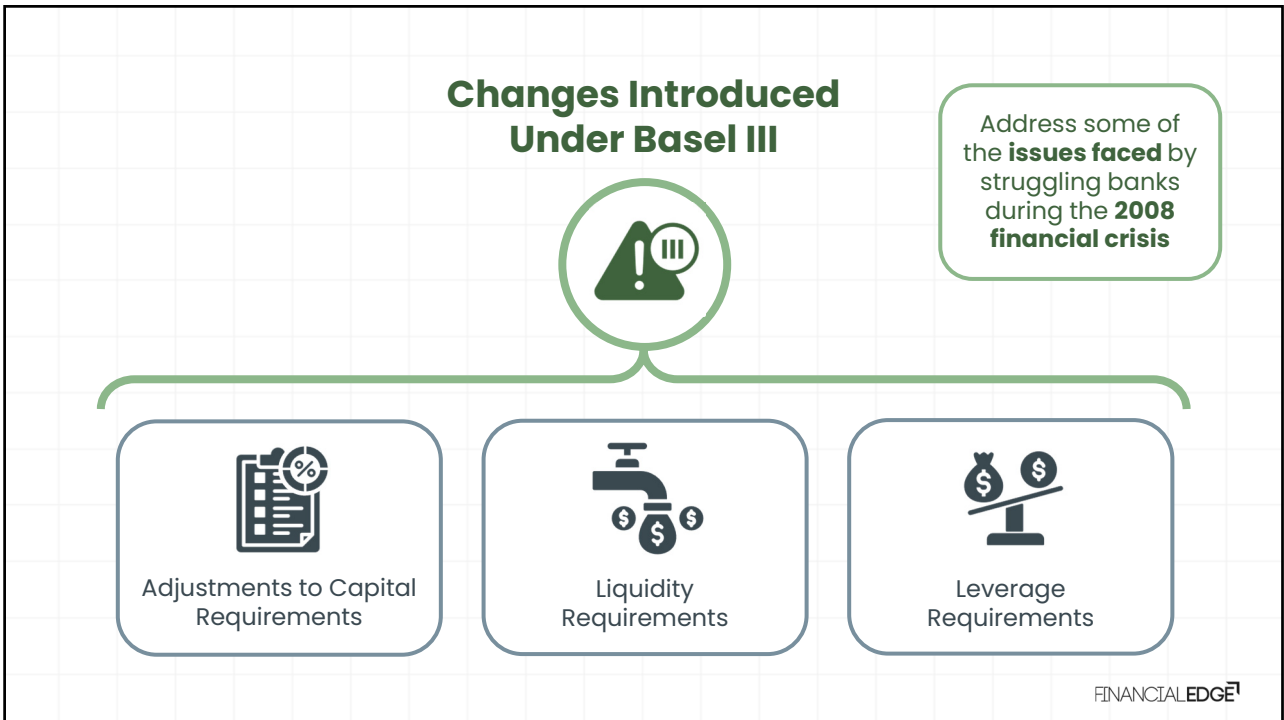
The actions of banks to help **exacerbate the economic cycles**

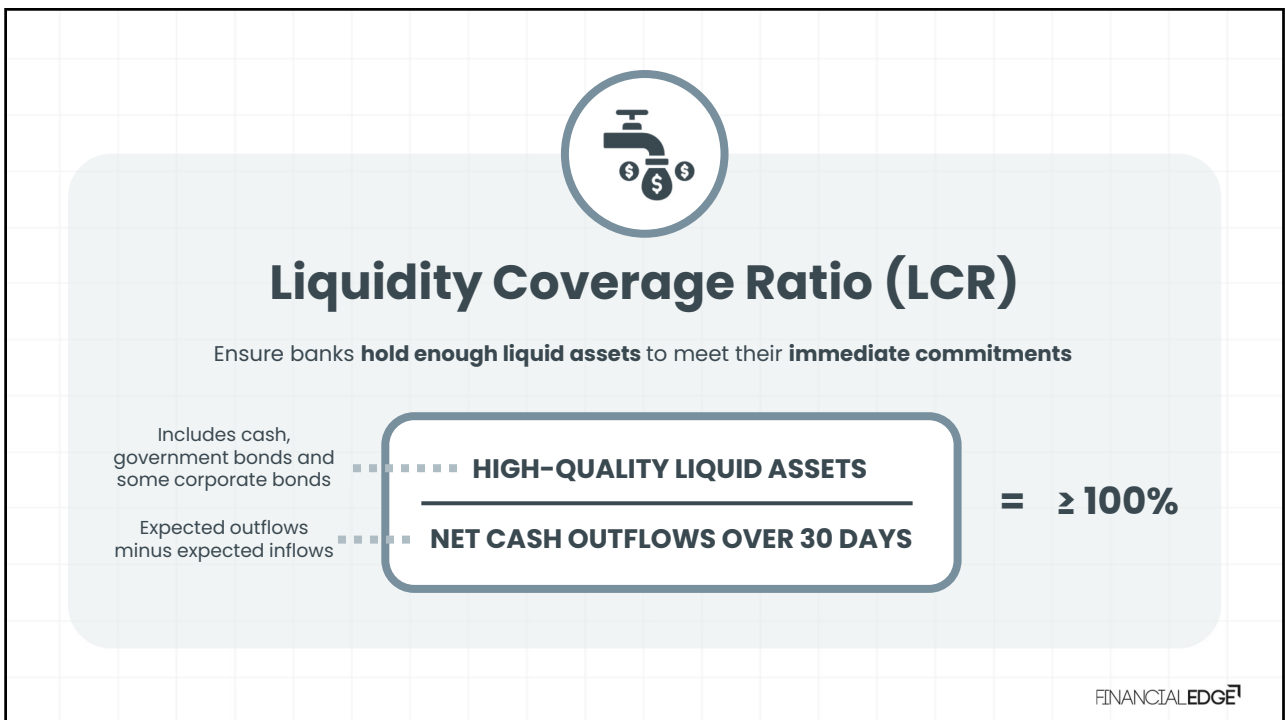
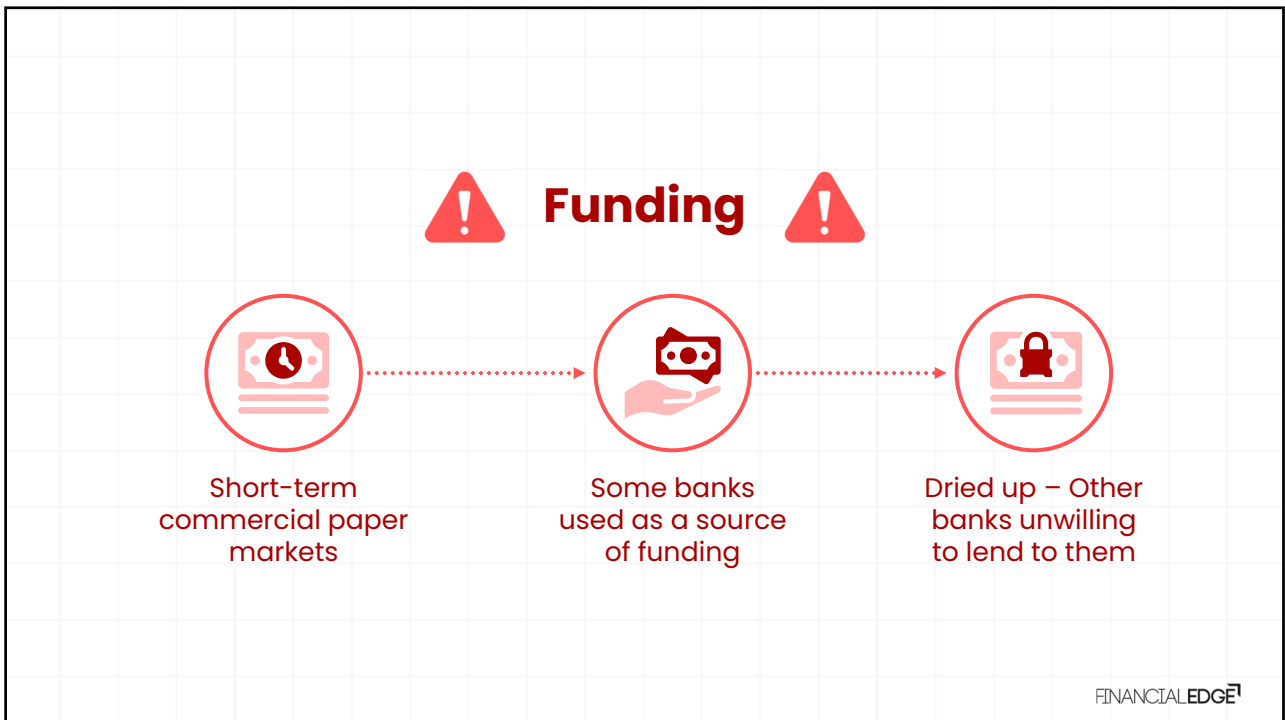
**Reduce lending** during tougher economic times

Lend too willingly **during good economic times**

## Capital Conservation Buffer (CCoB) + Countercyclical Capital Buffer (CCyB)









## Net Stable Funding Ratio (NSFR)

Ensure there is **sustainable long-term funding** for the long-term assets held by the bank



Pre-Global Financial Crisis some banks financed **long term assets** with **short term financing**



In 2007 they were left **struggling to raise financing**



Also **unable to sell** their **assets** to balance their books



## Net Stable Funding Ratio (NSFR)

Ensure banks **match** the **maturity of their assets** to the **maturity of the asset's funding**

The amount of funding the bank has in place for the next 12 months

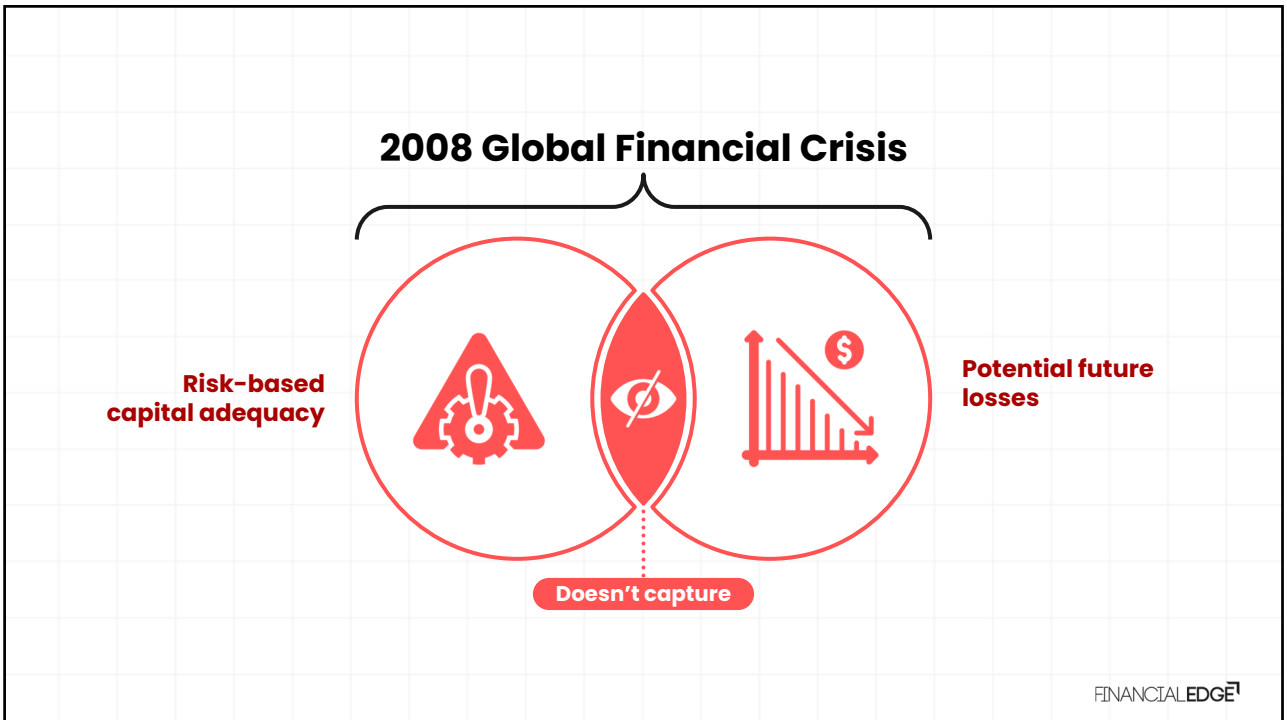
**AVAILABLE STABLE FUNDING**

The amount of assets which are not monetizable within 12 months

**REQUIRED STABLE FUNDING**

**= ≥ 100%**

(12 Months)





## Minimum Leverage Ratio

Limits the amount of **leverage** a bank can take

Total assets on the  
balance sheet

TIER 1 CAPITAL

TOTAL EXPOSURE

National regulators  
have slightly different  
exposure measures

FINANCIALEDGE<sup>7</sup>



## Supplementary Leverage Ratio (SLR)

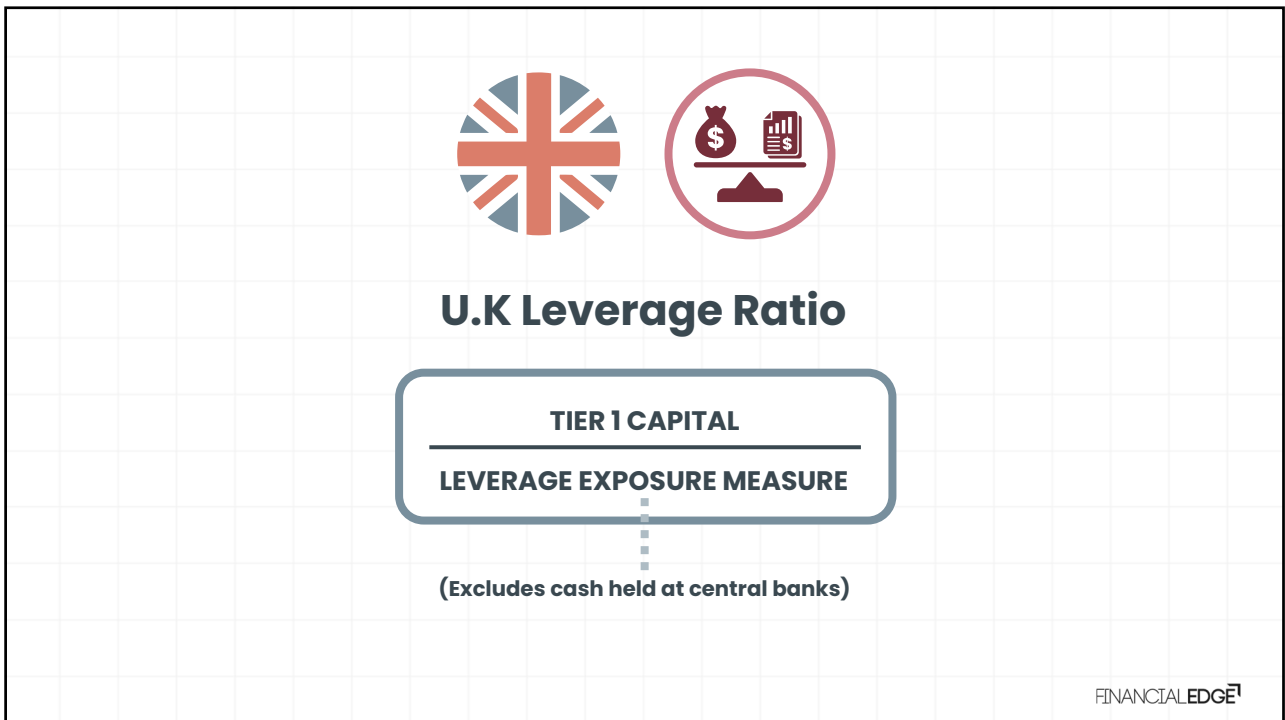
Imposed by the **Federal Reserve** on **U.S. banks**

TIER 1 CAPITAL

TOTAL LEVERAGE EXPOSURE

Includes **balance sheet** and some **off balance sheet items**

FINANCIALEDGE<sup>7</sup>



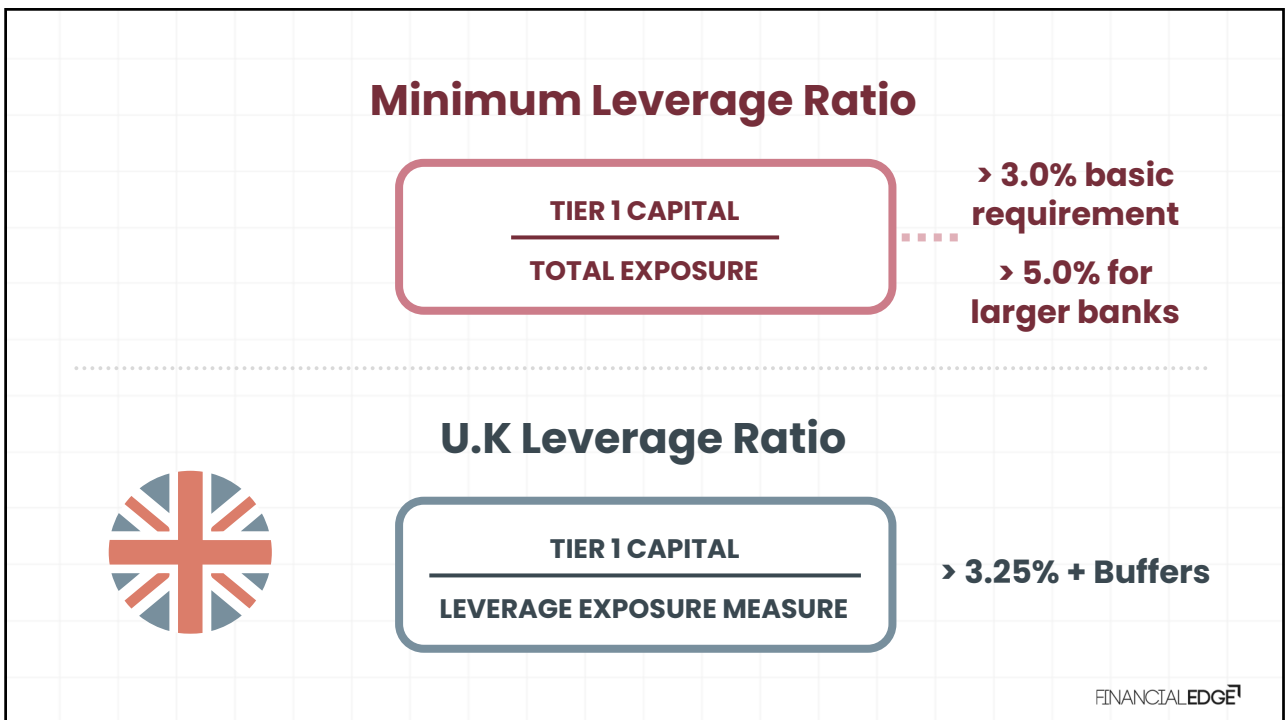
The diagram features a grid background. At the top center, there are two circular icons: the Union Jack flag on the left and a financial icon (a money bag, a bar chart, and a balance scale) on the right. Below these icons is the title "U.K Leverage Ratio". Underneath the title is a rounded rectangular box containing the formula  $\frac{\text{TIER 1 CAPITAL}}{\text{LEVERAGE EXPOSURE MEASURE}}$ . A dashed vertical line extends from the bottom of this box to the text "(Excludes cash held at central banks)". In the bottom right corner, the FINANCIALEDGE<sup>1</sup> logo is present.

**U.K Leverage Ratio**

$$\frac{\text{TIER 1 CAPITAL}}{\text{LEVERAGE EXPOSURE MEASURE}}$$

(Excludes cash held at central banks)

FINANCIALEDGE<sup>1</sup>



The diagram features a grid background. At the top center is the title "Minimum Leverage Ratio". Below it is a rounded rectangular box containing the formula  $\frac{\text{TIER 1 CAPITAL}}{\text{TOTAL EXPOSURE}}$ . To the right of this box, a dotted line points to the text "> 3.0% basic requirement" and "> 5.0% for larger banks". Below this section is a horizontal dotted line. Underneath is the title "U.K Leverage Ratio". To the left of this title is a circular icon of the Union Jack flag. Below the title is a rounded rectangular box containing the formula  $\frac{\text{TIER 1 CAPITAL}}{\text{LEVERAGE EXPOSURE MEASURE}}$ . To the right of this box, a dotted line points to the text "> 3.25% + Buffers". In the bottom right corner, the FINANCIALEDGE<sup>1</sup> logo is present.


**Minimum Leverage Ratio**

$$\frac{\text{TIER 1 CAPITAL}}{\text{TOTAL EXPOSURE}}$$

> 3.0% basic requirement  
> 5.0% for larger banks

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**U.K Leverage Ratio**



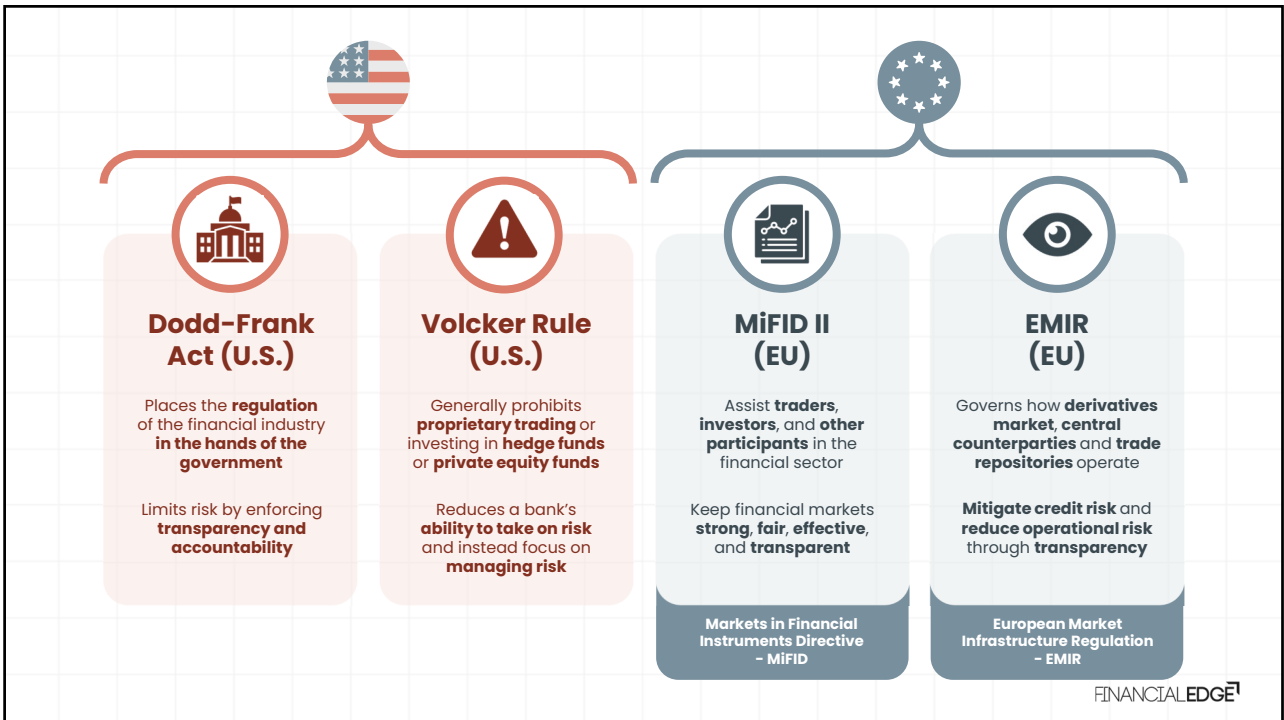
$$\frac{\text{TIER 1 CAPITAL}}{\text{LEVERAGE EXPOSURE MEASURE}}$$

> 3.25% + Buffers

FINANCIALEDGE<sup>1</sup>



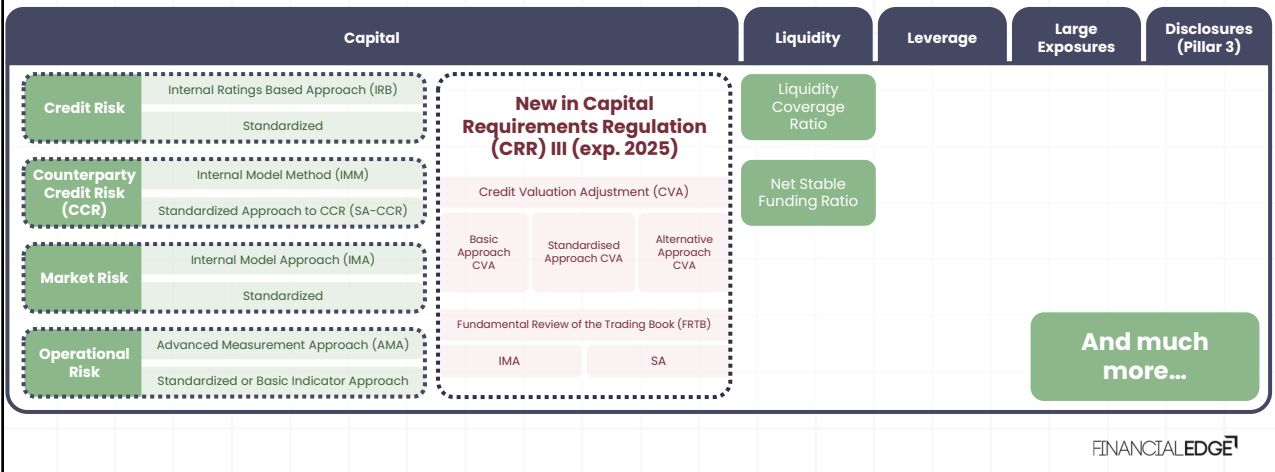
# Other Important Regulations





## Rules on Capital Measurement and Capital Standards

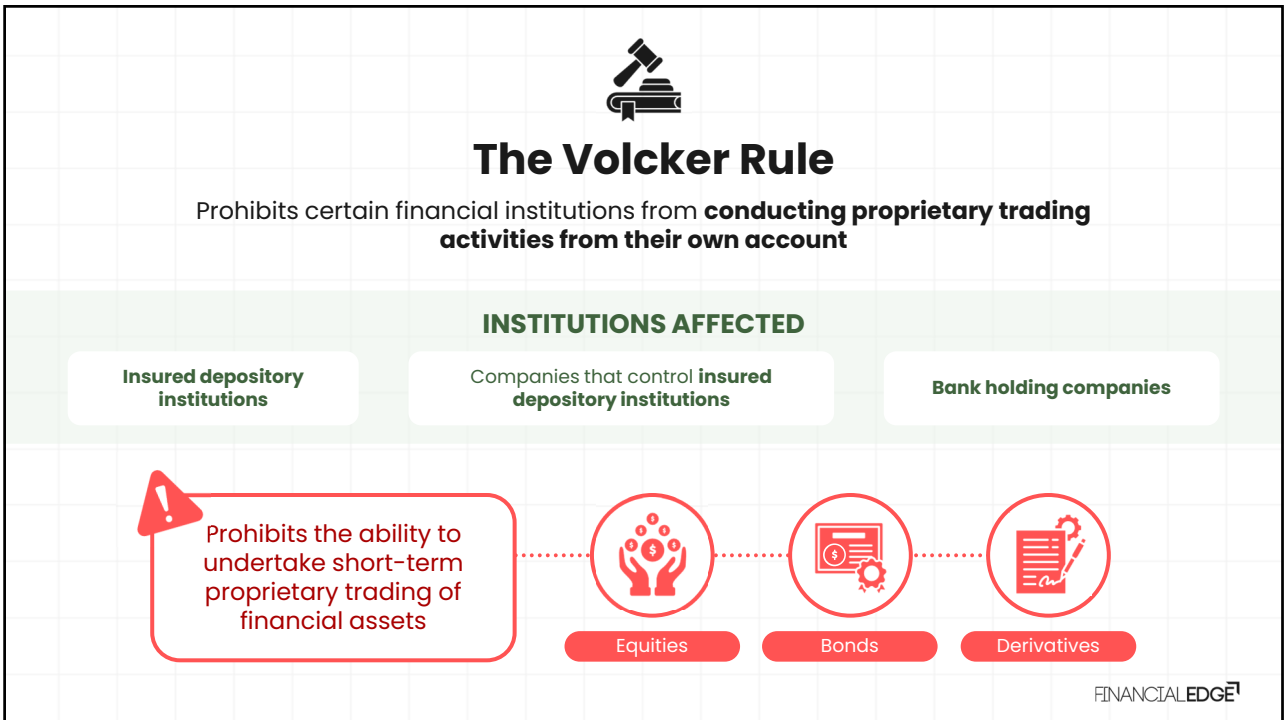
The objective is to decrease the likelihood that banks go insolvent



## Dodd-Frank Act (U.S.)

Very significant piece of legislation affecting almost all parts of the U.S. financial sector:







## The Volcker Rule

Prohibits certain financial institutions from **conducting proprietary trading activities from their own account**



✓ Market making

✓ Underwriting

✓ Hedging

### Requirements



..... There is **no conflict of interest**



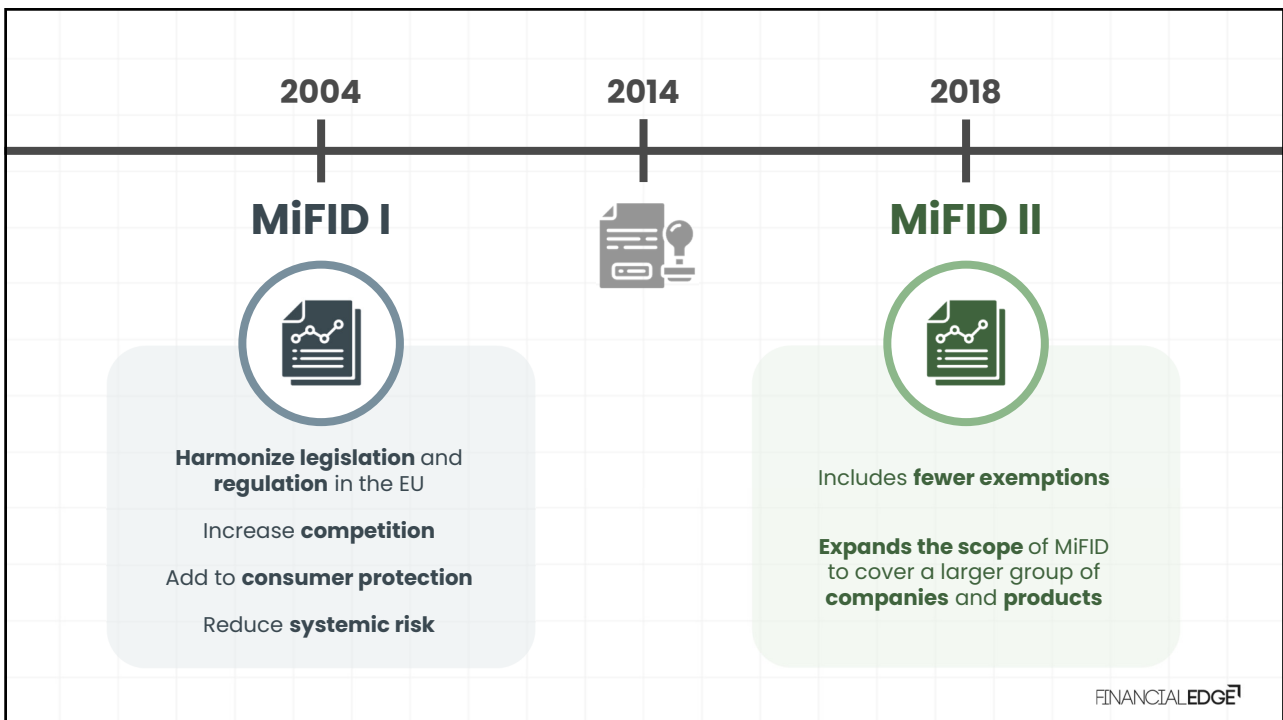
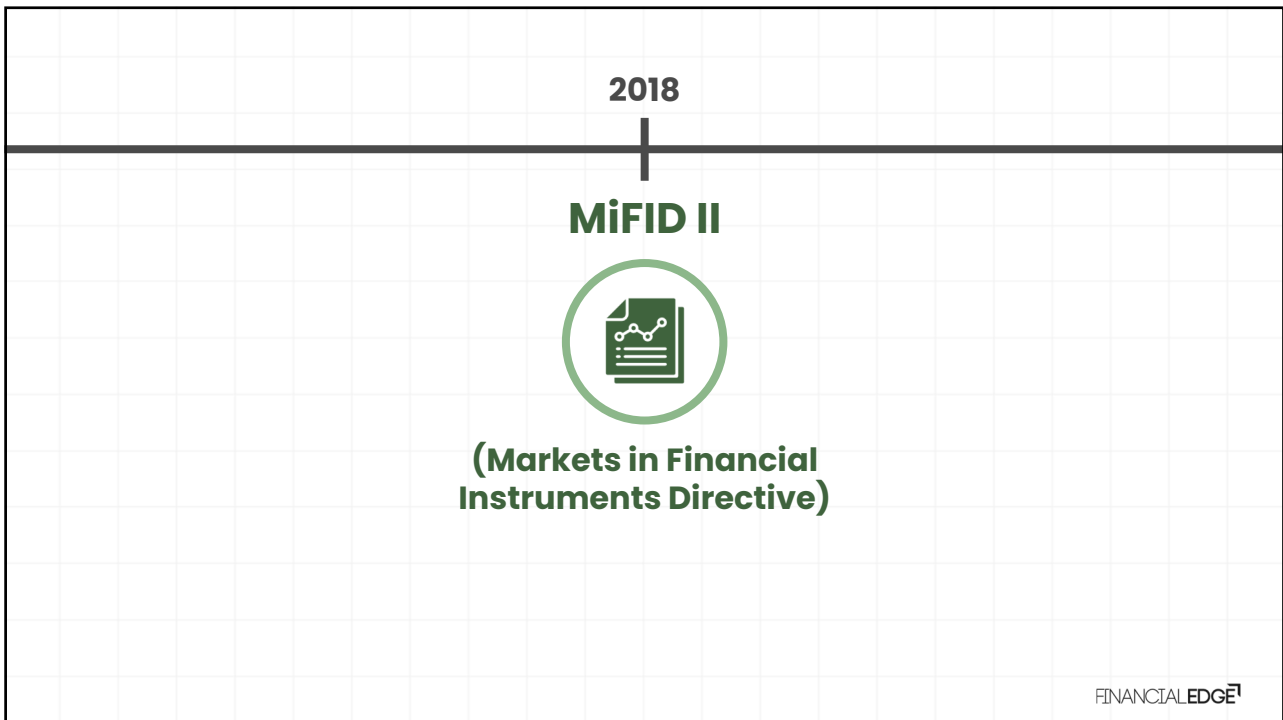
..... The bank is not exposed to **high-risk assets** or **trading strategies**

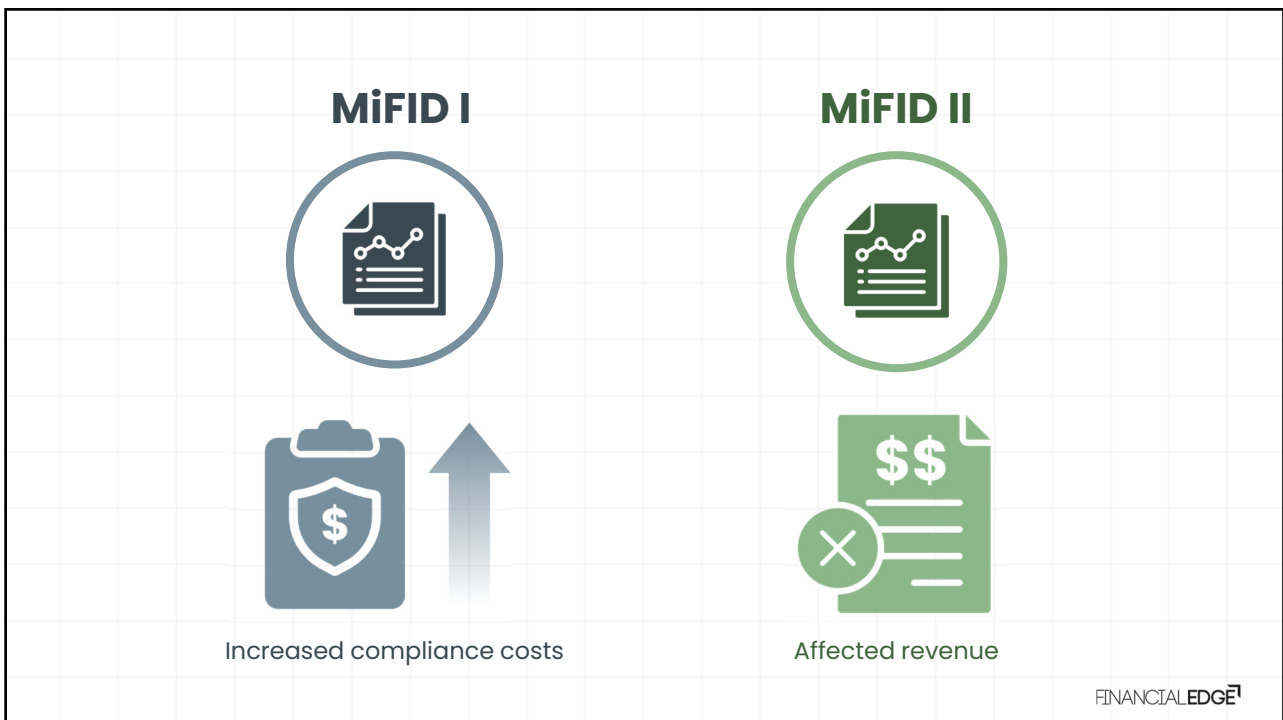
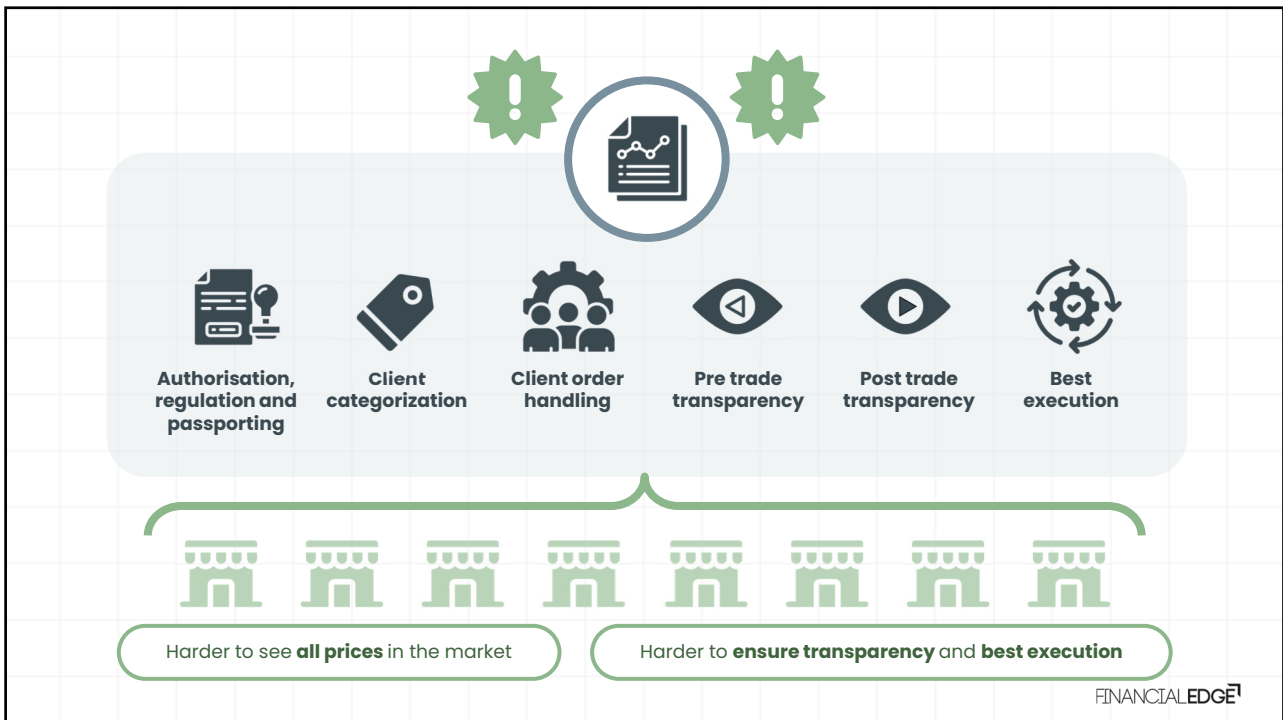


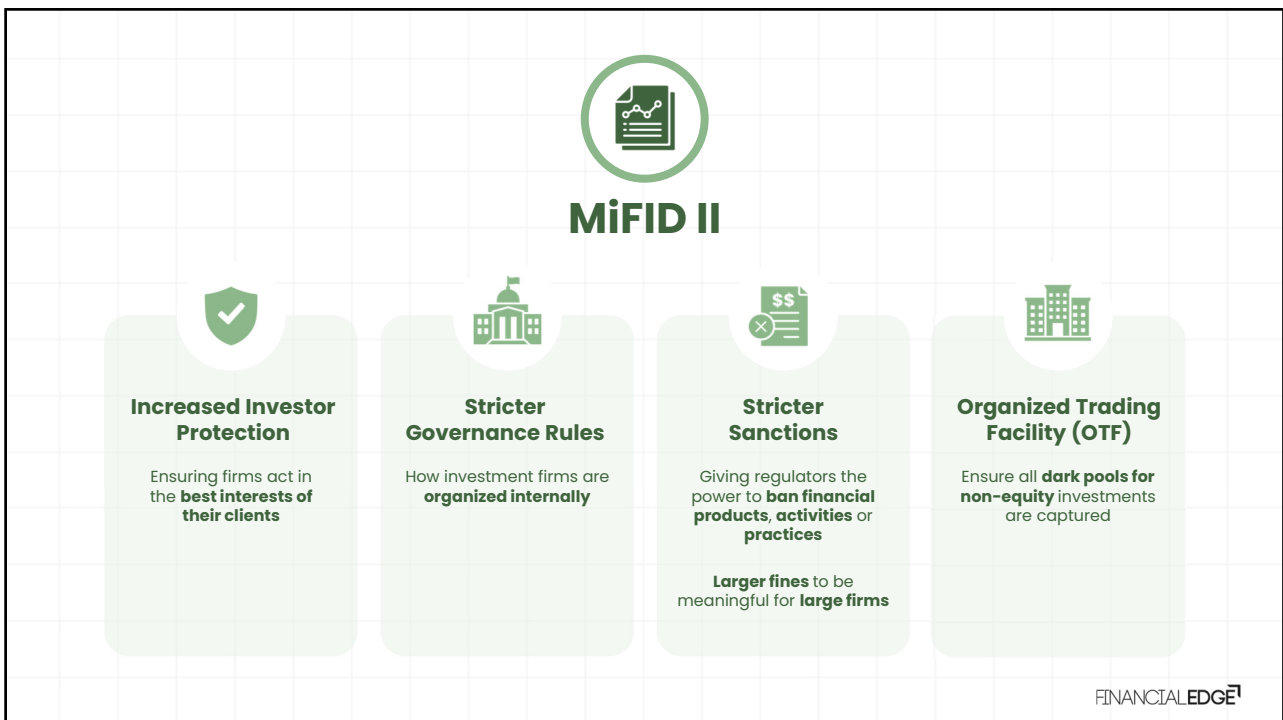
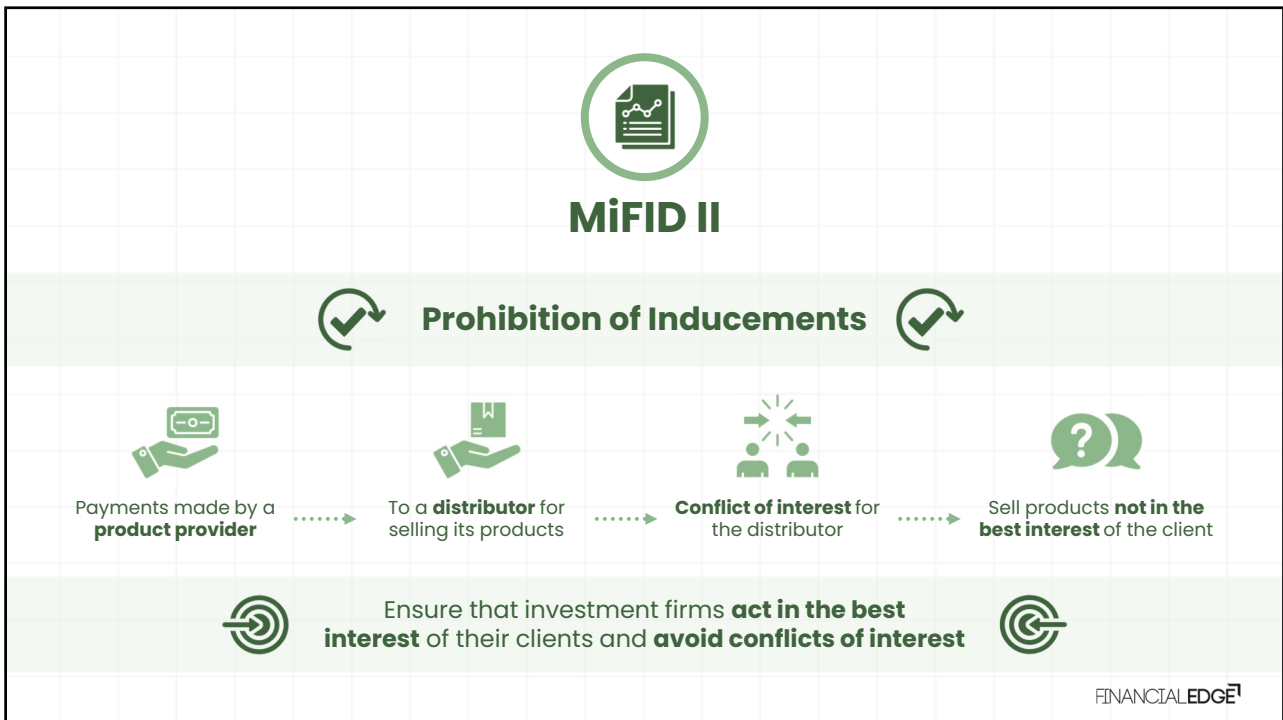
..... The trading does not generate **instability** within the bank or within the overall U.S. financial system

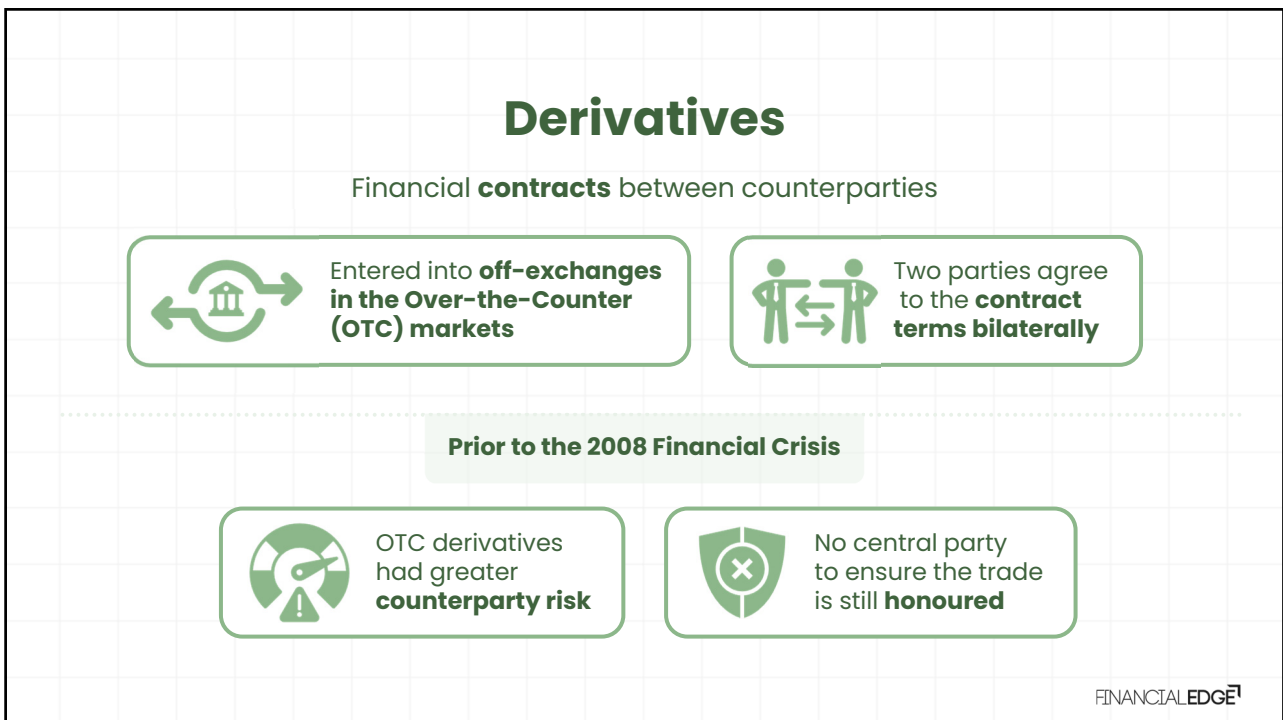
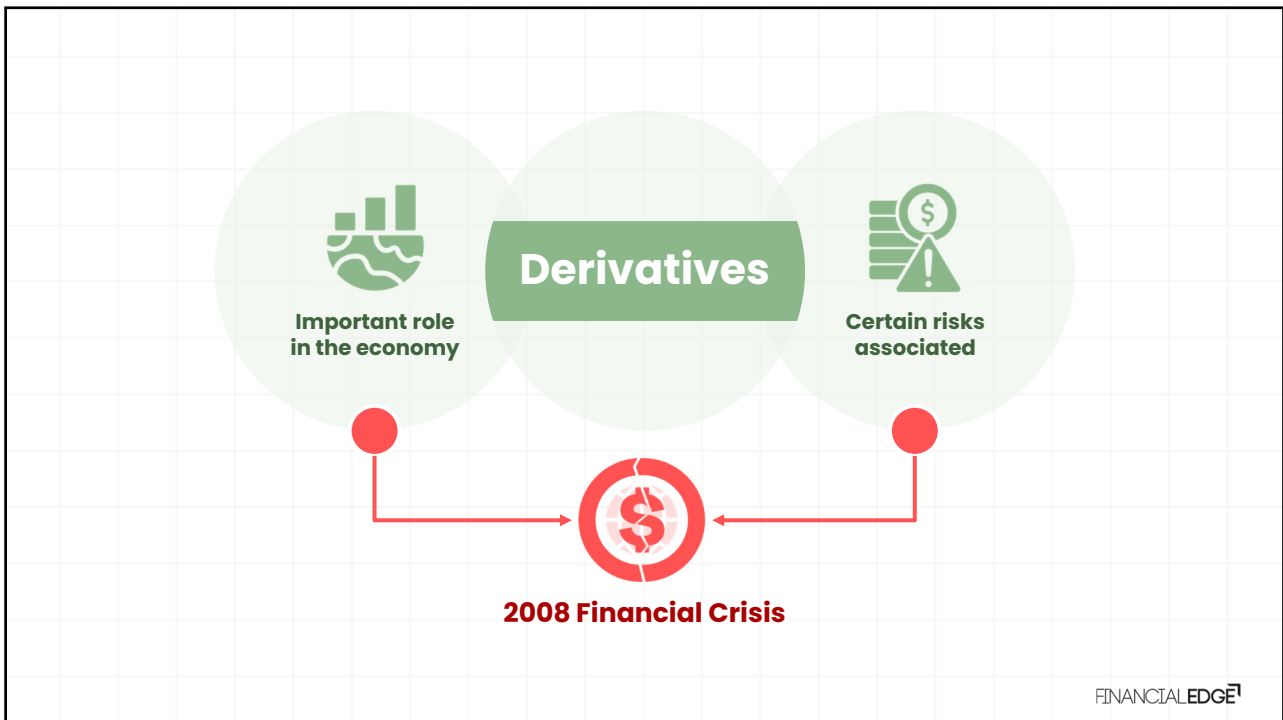


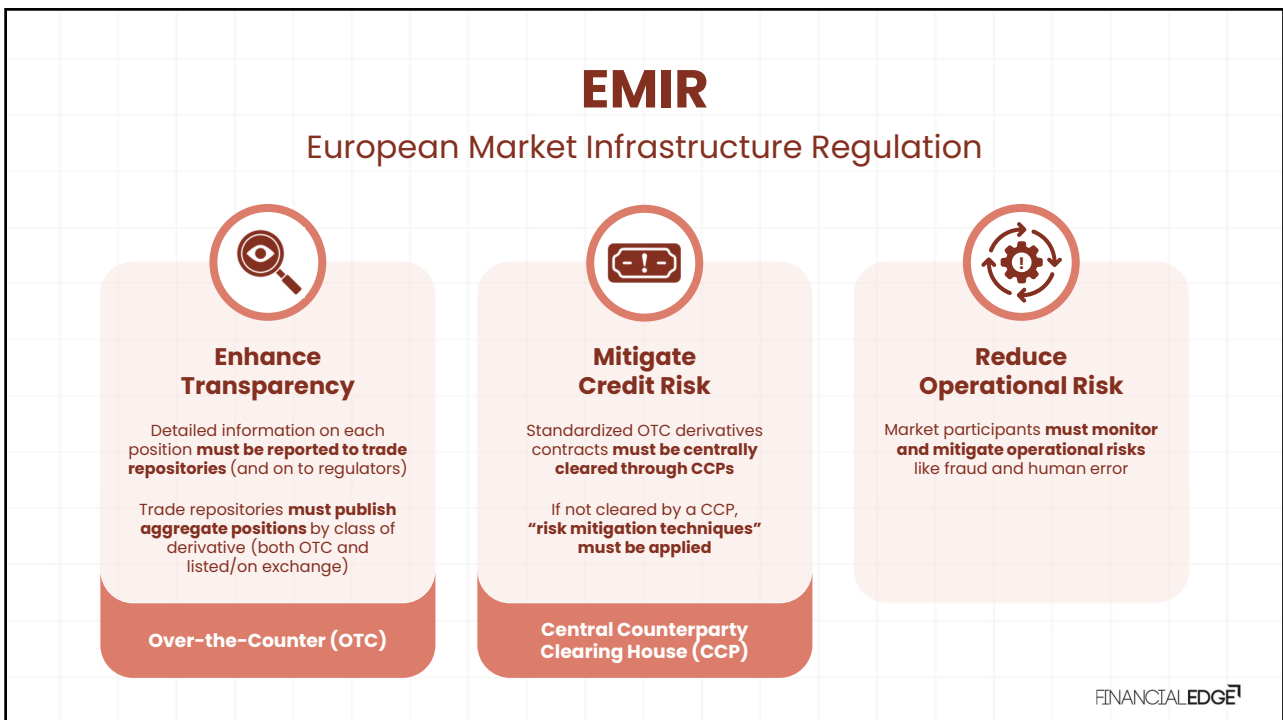
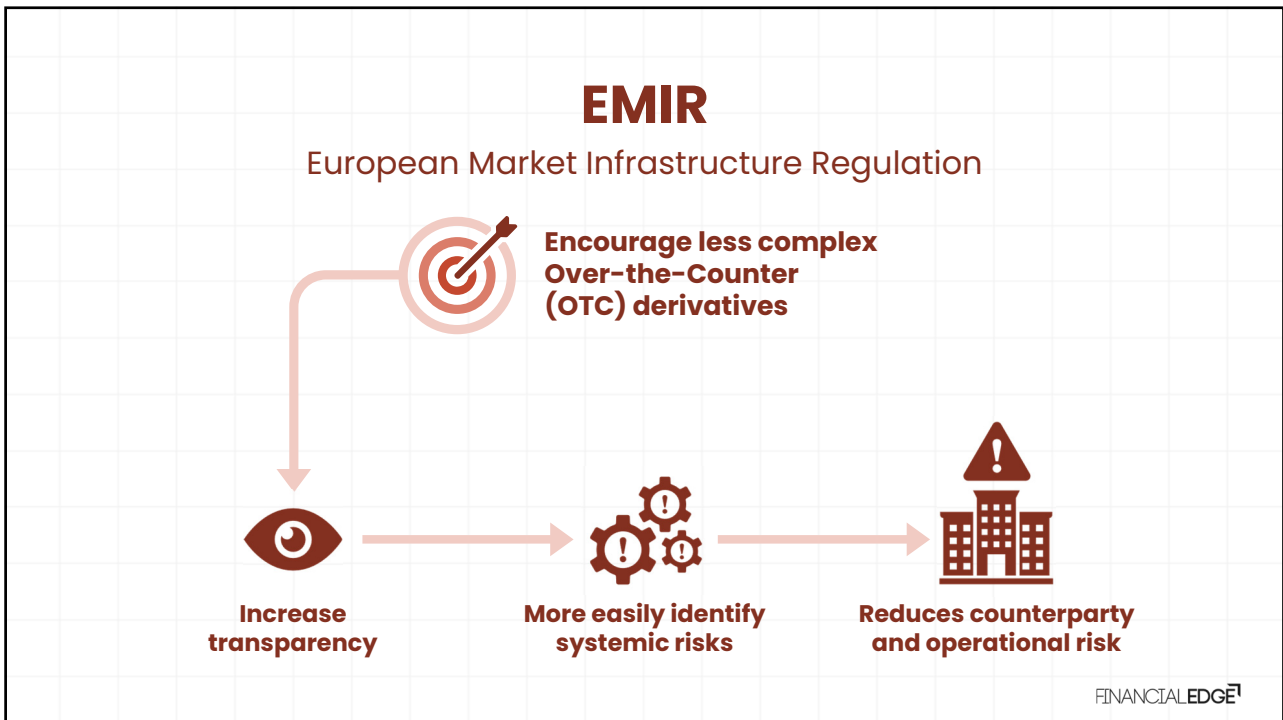
## EU Regulations

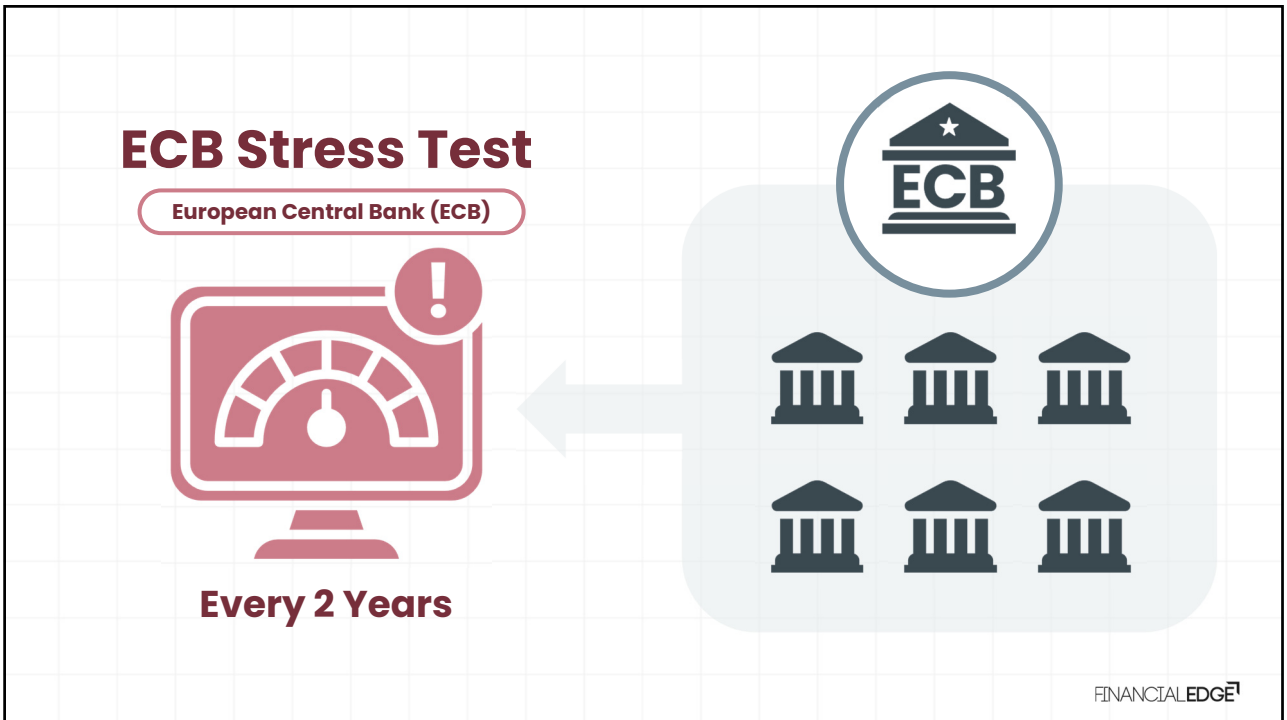
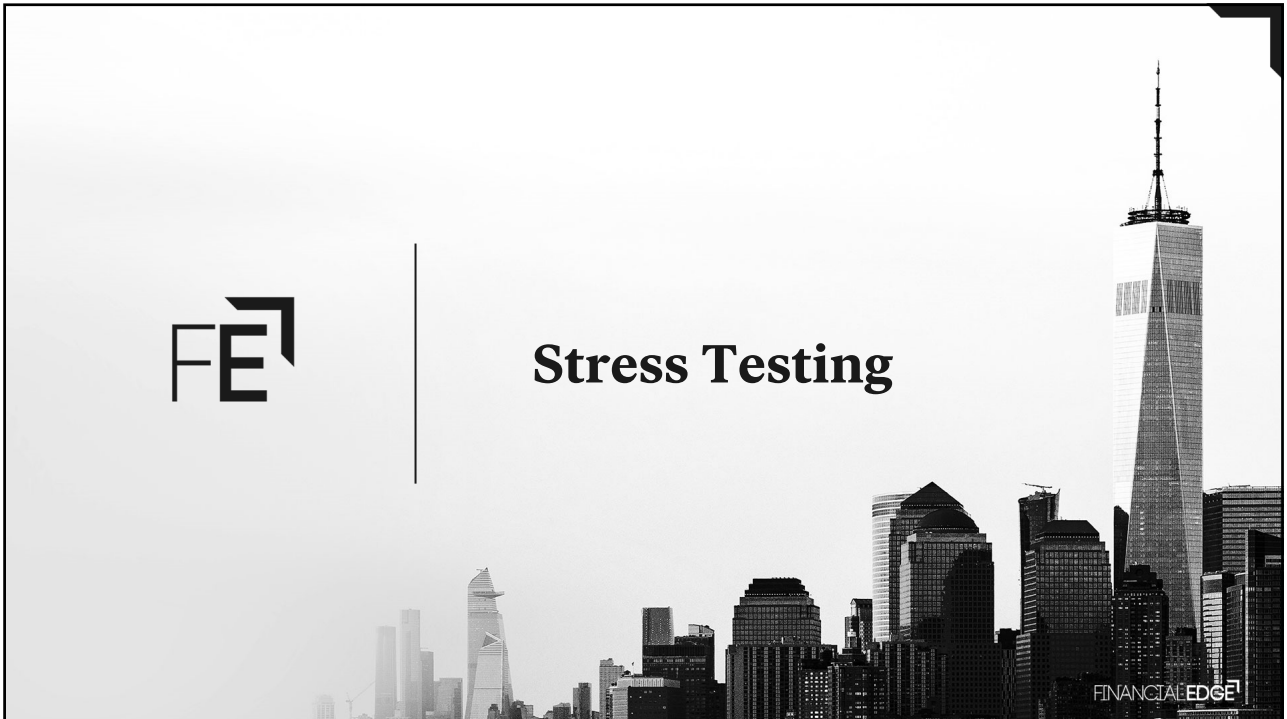


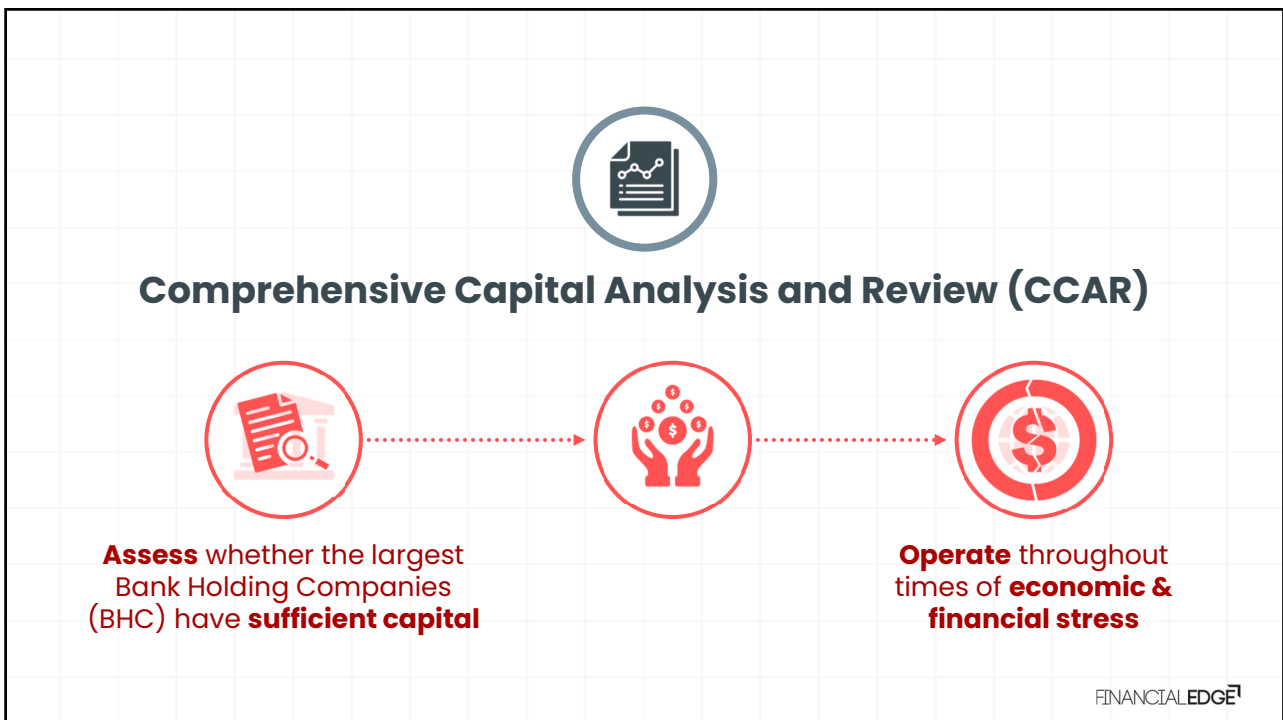
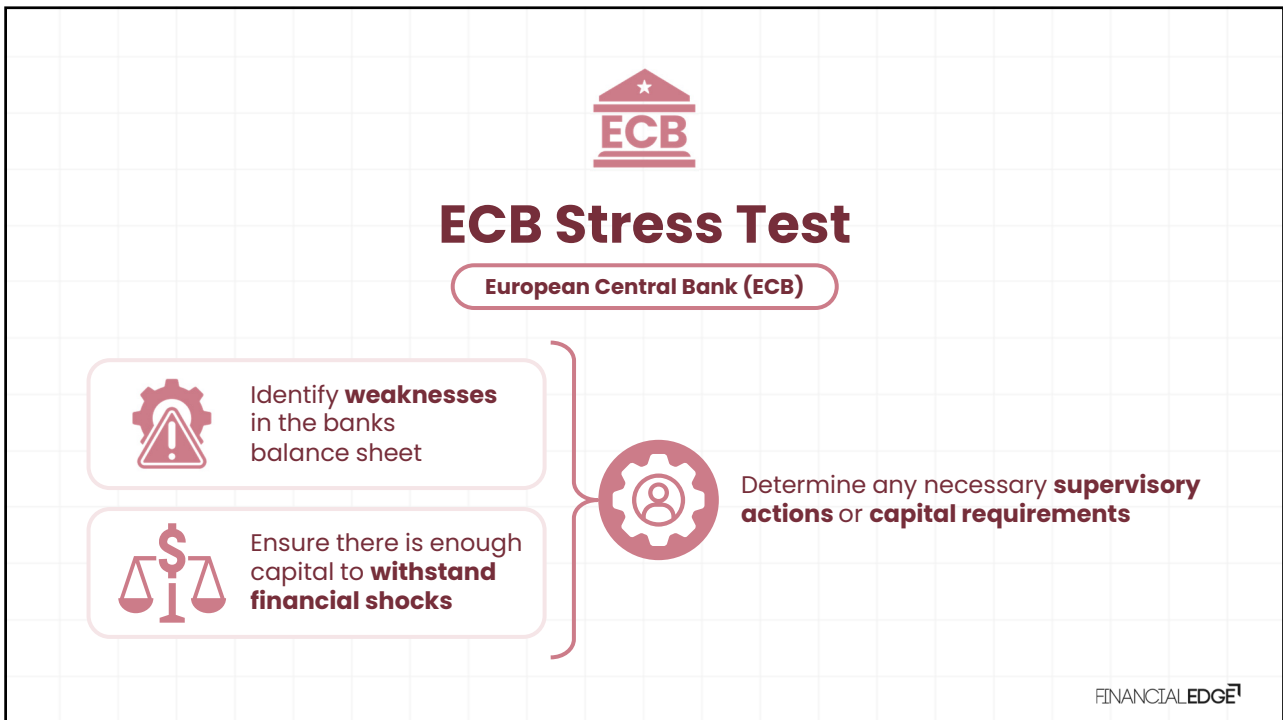












## Comprehensive Capital Analysis and Review (CCAR)

Federal Reserve evaluates:

Capital adequacy

Internal capital adequacy assessment processes

Plans to make capital distributions



## Dodd-Frank Act Stress Testing (DFAST)

Assess whether institutions have **sufficient capital** to absorb losses and support operations during **adverse economic conditions**

### DFAST

Dodd-Frank Act Stress Testing



Not applicable to banking organizations with **assets ≤\$10 Billion**

### CCAR

Comprehensive Capital Analysis and Review



Not applicable to banking organizations with **assets ≤\$10 Billion**



Federal Reserve coordinates these processes to **reduce duplicative requirements** and to **minimize regulatory burden**

