Basel III Requirements

According to a report by the Basel Committee on Bank Supervision (BCBS), **the** Reserve Bank of India **has fallen short** of meeting tougher **requirements set by the Basel III norms.**

- The report looked at adoption status of Basel III standards by 30 global systemically important banks (G-Sibs) as of end-May 2019.
- The RBI is **yet to publish the securitisation framework and rules on Total Loss-Absorbing Capacity (TLAC)** requirements.
    - Securitisation framework includes credit enhancement facility, liquidity facility, underwriting facility, interest rate or currency swaps and cash collateral accounts.
    - TLAC requirements ensures that G-Sibs have adequate loss absorbing and recapitalisation capacity so that critical functions can be continued without taxpayers' funds or financial stability being put at risk.
- The RBI is also yet to come out with draft regulations on **revised Pillar 3 disclosure requirements**, which took effect from end-2016.
- Indian banks are in the process of implementing **rules on Interest Rate Risk in the Banking Book (IRRBB)**. The central bank is also yet to come out with final guidelines on the same. Globally the rules were effective from end-2018.

Basel III Norms

- Basel III is an **internationally agreed set of measures** developed by the BCBS in response to the financial crisis of 2007-09. The measures aim to strengthen the regulation, supervision and risk management of banks.
- BCBS members are committed to implementing and applying standards in their jurisdictions within the time frame established by the Committee.
- **Basel 3 measures are based on three pillars:**
    - **Pillar 1:** Improve the banking sector's ability to absorb ups and downs arising from financial and economic instability
    - **Pillar 2:** Improve risk management ability and governance of banking sector
    - **Pillar 3:** Strengthen banks' transparency and disclosures

Basel Committee on Bank Supervision (BCBS)

- It is a **committee under the Bank For International Settlements.**
    - Established in **1930, the BIS** is owned by 60 central banks, representing countries from around the world that together account for about 95% of world GDP.
    - Its head office is in **Basel, Switzerland.**
    - Its mission is to **serve central banks in their pursuit of monetary and financial stability,** to foster international cooperation in those areas and to act as a bank for central banks.
- It is the **primary global standard** setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters.
- The Committee identifies global systemically important banks (G-SIBs) using a methodology that

includes both quantitative indicators and qualitative elements.

- **A global systemically important bank** is a bank whose systemic risk profile is deemed to be of such importance that the bank’s failure would trigger a wider financial crisis and threaten the global economy.