Extension of Basel III

What is the issue?

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There is a greatest challenge due to extension of deadline for Basel III.

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What are Basel norms?

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- Basel, a city in Switzerland, is the headquarters of Bureau of International Settlement (BIS), which fosters co-operation among central banks with a common goal of financial stability and common standards of banking regulations.
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- Currently there are 27 member nations in the committee.
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- Basel guidelines refer to broad supervisory standards formulated by this group of central banks called the Basel Committee on Banking Supervision (BCBS).
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- The set of agreement by the BCBS, which mainly focuses on risks to banks and the financial system are called Basel accord.
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- The purpose of the accord is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses.
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- India has accepted Basel accords for the banking system. In fact, on a few parameters the RBI has prescribed stringent norms as compared to the norms prescribed by BCBS.
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What is Basel III norms?

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- In 2010, Basel III guidelines were released.
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- These guidelines were introduced in response to the financial crisis of 2008.
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- A need was felt to further strengthen the system as banks in the developed economies were under-capitalized, over-leveraged and had a greater reliance on short-term funding.
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- Basel III norms aim at making most banking activities such as their trading book activities more capital-intensive.
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- The guidelines aim to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.
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What are the issues with RBI Stand on Basel norms?

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- Reserve Bank of India (RBI) recently extended the deadline for compliance of capital requirements under Basel III norms to March 2019.
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- Extending more time under Basel III means lower capital burden on the banks in terms of provisioning requirements, including the NPAs.
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- This extension would impact the perception of Indian Banks and central bank in the eyes of the global players.
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- As per Basel III norms, most of the regulatory adjustments are made from common equity capital, like deduction from common equity component of Tier-1 capital.
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- Whenever, there is an unanticipated large increase in stressed assets, banks require more capital to boost their loss-absorbing capacity.
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- In the given situation, it become quite difficult to raise the capital through equity as it becomes costlier and unattractive in such a situation.
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- It is a natural tendency that whenever banks are faced with large stressed assets, they tend to reduce supply of credit.
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- Within stress assets the non-payment of loans brake the financial cycle of lending-repaying-borrowing.
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What are the suggested measures?

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- With the latest development of amending Banking Regulation (amendment) ordinance, RBI may try to bring down stressed assets.
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- Without losing any time, RBI has taken prompt action on six PSU banks and has placed them under Prompt Corrective Action (PCA) rules.
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- Banks are reducing stressed assets by selling them to asset reconstruction companies (ARCs).
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- Hardships faced by micro, small and medium enterprises (MSMEs) in restructuring their stressed bank loans, regulator has issued a separate guidelines for revival of distressed assets in this segment.
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- The composition of liabilities of banks should not influence the price and quantity of credit.
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- Assocham has suggested to create Stressed Assets Funds (SAFs) with the active participation of cash-rich public sector firms.
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Source: Financial Express

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