Financial Risk Group

Basel III: Are you ready?

In light of the recent financial crisis that clobbered the world's economy, the Basel Committee on Banking Supervision (BCBS) has developed a new regulatory framework – Basel III. While still emphasizing bank level (i.e., *micro-prudential*) measures, Basel III has gone a step further to include sector level (i.e., *macro-prudential*) measures as well.

Not only does Basel III include new guidelines, it also modifies old ones to accommodate the influence of the complex relationships that exist in the global economy. It is important to note, however, that Basel III does not supplant the Basel I and Basel II frameworks. On the contrary, it complements them.

Among the new guidelines are:

- A leverage ratio that limits total assets to 33 times Tier 1 capital.
- A capital buffer of 2.5% of common equity is now suggested to help a bank absorb losses during future periods of stress. If the buffer falls below 2.5% the bank is limited in the distribution of dividends and bonuses.
- A countercyclical capital buffer of 0 to 2.5% will build up during periods of rapid credit growth if the national authorities think the credit growth exacerbates system-wide risk.
- A stressed market VaR is included in the market risk capital requirement for banks using the Internal Models Approach.
- An Incremental Risk Capital Charge (IRC) is added to the VaR framework to incorporate effects from credit rating movements.
- An addition of metrics to assess a bank's liquidity risk exposure: Liquidity Cover Ratio (LCR) and Net Stable Funding Ratio (NSFR). The former focuses on short-term funding liquidity; the latter, long-term.

The new framework is expected to be in place in 2013 and will be gradually phased in through 2019.

Basel III: How can the Financial Risk Group help you?

The Financial Risk Group is a consulting firm that specializes in measuring financial risk and implementing the technology to support that. We cover the risk management process from end to end; data integration, analytics, reporting and user interfaces. To us a successful implementation not only means compliance with regulation, it also means furthering business objectives through best practices in risk management.

We have vast experience in Basel I and II implementations. John Bell, a partner at FRG, states, "Understanding the power of a Basel project and capturing the value is not trivial. A Basel project should provide more than just regulatory compliance. A successful Basel implementation is a risk analysis platform that lends itself seamlessly to the computation of all risk measures relevant to the business."

In our experience data accounts for three quarters of an implementation. In order to ensure a successful project, you will need a implementation partner who understands your data, your business and the regulatory requirements.

We know that translating the Basel guidelines into your unique framework can be a complex process. Therefore you will need a partner with domain expertise in best practices who can draw from a long experience.

We understand that In order to support business objectives optimization of regulatory capital is important. You will need a partner with an in-depth understanding of analytical modeling to ensure you have the tools to maximize your return on capital.

Please contact us at (919) 449-6742 or info@frgrisk.com for more information about how we can assist you.

For additional information, the following Website contains a comprehensive list of the documents that define Basel III: http://www.bis.org/list/basel3/index.htm

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