Enhancements to Basel II and Regulatory and Supervisory Structures

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Main features of the proposed enhancements

I. Strengthening the three Pillars of Basel II

II. Overcoming weaknesses in regulatory and supervisory structures

I. Strengthening the three Pillars of Basel II

✓ **Minimum capital requirements: Changes to Pillar 1**

- Strengthening capital buffers: higher quantity and quality of capital
- Higher capital ratios in banks involving systemic risk
- Capital charges against trading book exposures should be increased significantly

I. Strengthening the three Pillars of Basel II

✓ Supervisory Review Process: Complementing Pillar 2

- Enhanced guidance to strengthen banks´ corporate governance as regards risk management, internal controls and policies
- Countercyclical regulation regarding capital buffers and provisions
- Introduction of a maximum gross leverage ratio
- Strengthen liquidity risk management including higher liquidity buffers and resilience to stress testing

I. Strengthening the three Pillars of Basel II

✓ **Market discipline: Further disclosures under Pillar 3**

- Risk disclosures on securitisation and resecuritisation exposures in the trading book

- Transparency of credit risk provisions

- The Turner Review: “Market disciplines expressed via market prices cannot be expected to play a major role in containing bank risk taking and the primary constraint needs to come from regulation and supervision”

II. Overcoming weaknesses in regulatory and supervisory structures

- ✓ Developing macroprudential regulation in view of systemic risk
- ✓ Implementing optimal regulatory structures as regards financial stability, prudential supervision, and business conduct (consolidated, twin peaks and other approaches)
- ✓ Parallel advancements as regards risk management and supervision in financial innovation and new products in banks, supervisors, institutions and markets
- ✓ Extension of prudential regulation and supervision to "parallel banking system" including currently non-regulated financial entities: hedge funds, mortgage brokers, off shore banks and others

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