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DOES BASEL III BRING ANYTHING NEW? A COMPARISON BETWEEN CAPITAL ACCORDS BASEL II AND BASEL III

Abstract:

Basel Accords represent the most important documents of banking supervision. Basel II came into force almost at the same time as the financial crisis set in. Relatively soon after this, the work on the new capital accord known as Basel III was initiated. The question is whether the new agreement brings something really principally different from Basel II, or whether it is just a tool to reassure the public and markets with some form of stricter requirements. Basel Committee is based on G-20 countries representation. Introduction contains a brief explanation of how the Basel capital accords are reflected in European law. The first part of the article explains core principles of Basel II with several possible explanations of its failure. The second part clarifies the main principles of Basel III and compares them with Basel II. The criterion for comparison is search for fundamental distinctions between the introduced tools. From five monitored areas (definition of capital, capital requirements, risk coverage, leverage ratio, liquidity management) three of them meet this criterion. The redefinition of capital means only better clarification and unification of definitions. The risk coverage part focuses on technical issues, but no new risks are perceived. There is a significant change about new capital requirements. Two new buffers are requested. While previous capital requirement were based on direct connection with risks, the connection between capital conservation buffer and countercyclical buffer is only indirect to measured risks. Also the leverage ratio and liquidity management bring new tools and thus principle change. There is a significant change in leverage ratio that brings a new tool which is not based on risk. It makes the calculation easier and should avoid cheating in capital manipulation. Liquidity management is a completely new part of banking regulation measures, therefore there is nothing to compare with Basel II.

Keywords:

Basel capital accords; Basel II; Basel III; capital requirements; capital adequacy

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