# *Impact of BIII in EMSEs: Approach to Pillars 1, 2, & 3*

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# Introduction

- Impact of Basel III
  - Pillar 1,
  - Pillar 2
  - Pillar 3
- Transition from Basel I to Basel III
- Conclusions

# Impact of Basel III: Pillar 1 and the Numerator of the Capital Ratio

- Higher amounts of better quality capital
  - Focus on CET1, retained earnings/reserves
- Minimal impact on EMSEs
  - Minimal use of innovative instruments
- Increase consistency, comparability and transparency
  - Harmonization of deductions and prudential filters
- Deductions
  - Minority interests, DTAs

# Impact of Basel III: Pillar 1 and the Numerator of the Capital Ratio

- Non-viability trigger in subordinated debt
  - Potentially a difficult issue to resolve
  - Limited use of subordinated debt by EMSEs
  - Key to align legal and regulatory frameworks

- Potential for perverse outcomes
  - Conversion imports fit and proper issues

# Impact of Basel III: Pillar 1 and the denominator of the Capital Ratio

- Direct impact on EMSEs marginal
  - Predominantly via Basel II.5
  - Derivatives
  - Securitizations

- Challenges
  - CVA
  - CCP clearing for OTC Derivatives
  - Transaction costs, eligible collateral

# Impact of Basel III:
# Pillar 2 and the Buffers

- Capital Conservation Buffer (CCB)
  - Additional 2.5 percent buffer above 4.5 percent CET1 for times of stress
  - Triggers supervisory corrective action: dividends, bonuses
- Countercyclical Capital Buffer (CCyB)
  - Targets system-wide risks
  - Range of 0 - 2.5 percent, composed of CET1
  - Trigger: increase, decrease or release

# Impact of Basel III: Pillar 2 and the Buffers

- Supervisory powers critical
  - Legislative powers
  - Will to act
  - Experience with buffers will take time (cf. Pillar 2)
  - Integration with supervisory framework

- Interaction of the buffers
  - Idiosyncratic vs cyclical risks
  - Overlap of CCB, Pillar2, CCyB
  - CCyB indicators:
    - Credit to GDP gap: is there a credible alternative?

# Impact of Basel III: Pillar 3

- More transparency in public disclosures

- Effect on EMSEs is likely to be minor

# Transition from Basel I to Basel III

- Progressive move towards implementing elements of Basel II and Basel III beneficial

- Capital is only one part of an effective supervisory framework
  - Core Principles, Liquidity reforms of BIII

- Framework for transitioning to Basel III is needed

# Conclusions

- Impact on the capital numerator from BIII might be material and requires a long lead time to remedy
  - Non-viability trigger
- Impact on the capital denominator marginal to EMSEs
  - Primarily securitizations, derivatives
- Implementation of buffers will require experience by supervisors across several cycles
- Guidance to assist BI EMSEs transition from BI to BIII
  - Sequencing, priorities
  - Standard-setters, IFIs and national authorities

# Thank you!