

**Consultative proposals to strengthen the resilience of the banking sector
announced by the Basel Committee
17 December 2009**

At its 8-9 December meeting, the Basel Committee on Banking Supervision approved for consultation a package of proposals to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector. Along with the measures taken by the Committee in July 2009 to strengthen the Basel II Framework, the proposals announced today are part of the Committee's comprehensive response to address the lessons of the crisis related to the regulation, supervision and risk management of global banks.

These reforms carry forward the 7 September 2009 mandate of the Governors and Heads of Supervision, the oversight body of the Basel Committee. The reform programme has also been endorsed by the Financial Stability Board and by the G20 leaders at their Pittsburgh Summit.

Mr Nout Wellink, Chairman of the Basel Committee and President of the Netherlands Bank, stated that "the capital and liquidity proposals will result in more resilient banks and a sounder banking and financial system. They will promote a better balance between financial innovation and sustainable growth".

The Committee's consultative documents cover the following key areas:

Raising the quality, consistency and transparency of the capital base. This will ensure that the banking system is in a better position to absorb losses on both a going concern and a gone concern basis. In addition to raising the quality of the Tier 1 capital base, the Committee is also harmonising the other elements of the capital structure.

Strengthening the risk coverage of the capital framework. In addition to the trading book and securitisation reforms announced in July 2009, the Committee is proposing to strengthen the capital requirements for counterparty credit risk exposures arising from derivatives, repos and securities financing activities. The strengthened counterparty capital requirements will also increase incentives to move OTC derivative exposures to central counterparties and exchanges. The Committee will also promote further convergence in the measurement, management and supervision of operational risk.

Introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a Pillar 1 treatment based on appropriate review and calibration. The leverage ratio will help contain the build-up of excessive leverage in the banking system, and introduce additional safeguards against model risk and measurement error. To ensure comparability, the details of the leverage ratio will be harmonised internationally, fully adjusting for any remaining differences in accounting.

Introducing a series of measures to promote the build-up of capital buffers in good times that can be drawn upon in periods of stress. A countercyclical capital framework will contribute to a more stable banking system, which will help dampen, instead of amplify, economic and financial shocks. In addition, the Committee is promoting more forward-looking provisioning based on expected losses, which captures actual losses more transparently and is also less procyclical than the current "incurred loss" provisioning model.

Introducing a global minimum liquidity standard for internationally active banks that includes a 30-day liquidity coverage ratio requirement underpinned by a longer-term

structural liquidity ratio. The framework also includes a common set of monitoring metrics to assist supervisors in identifying and analysing liquidity risk trends at both the bank and system wide level. These standards and monitoring metrics complement the Committee's Principles for sound liquidity risk management and supervision issued in September 2008.

The Committee is also reviewing the need for additional capital, liquidity or other supervisory measures to reduce the externalities created by systemically important institutions.

The Committee is mindful of the need to introduce these measures in a manner that raises the resilience of the banking sector over the longer term, while avoiding negative effects on bank lending activity that could impair the economic recovery. To this end, the Committee is initiating a comprehensive impact assessment of the capital and liquidity standards proposed in the consultative documents. In a number of proposals, the Committee is still considering different options, which will be included in the impact assessment. Mr Wellink stressed that "decisions on the final proposals and their calibration will be made only after a thorough analysis of the impact assessment and the comments received on the consultative documents. The Committee will ensure that implementation of the new standards is consistent with financial market stability and sustainable economic growth".

The impact assessment will be carried out in the first half of 2010. On the basis of this assessment, the Committee will then review the regulatory minimum level of capital and the reforms proposed in this document to arrive at an appropriately calibrated total level and quality of capital. The calibration will consider all the elements of the Committee's reform package and will not be conducted on a piecemeal basis. The fully calibrated set of standards will be developed by the end of 2010 to be phased in as financial conditions improve and the economic recovery is assured, with the aim of implementation by end-2012¹. The Committee will put in place appropriate phase-in measures and grandfathering arrangements for a sufficiently long period to ensure a smooth transition to the new standards.

The Committee's reform package can be accessed through the following links: [Strengthening the resilience of the banking sector](#) and [International framework for liquidity risk measurement, standards and monitoring](#).

Comments on the consultative documents should be submitted by 16 April 2010 by email (baselcommittee@bis.org) or post (Secretariat of the Basel Committee on Banking Supervision, Bank for International Settlements, CH-4002 Basel, Switzerland).

¹ The July 2009 requirements for the trading book, resecuritisations and exposures to off-balance sheet conduits are to be implemented by the end of 2010.