The capital buffer and capital planning-banks

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The Article Capital Buffer and Capital Planning-Banks

The primary objectives of the author of this article are to highlight the capital requirements of the Basel Capital Accord to identify, assess and aggregate all possible types of uncertainties relevant to them and underpin them. The article highlights two pillars that address on adequate capital defense. It defines the requirements that contribute to the abolition of miscellaneous behavior that has a negative effect on the overall financial position of an organization.

The articles highlight various requirements of financial institutions under Pillar 2. He advocated for categorization as an important tool for applying a homogeneous measure to systems with analogous risk reports. According to this article, FINMA categorizes different financial institutions into different groups based on their total material goods, possessions under management, fortunate and required own funds.

Pillar 2 describes the limits for capital buffers in line with categorization. The support sets the capital adequacy requirements in a digressive manner that depends on the size of the institution and its complexity. These limits described by this support include the capital ratio that is applicable to establish the capital adequacy of an institution. The other limit is the capital ratio that needs an immediate action according to the supervisory law.

The pillar claims that all financial institutions need to improve the quality of its financial status the help to meet the capital adequacy target of the whole system. Another trait common to most of the financial institutions include an inability to fulfill the capital buffer target. The author claims that an organization can be permitted to fail to comply with the capital adequacy target upon lack of notification. These organizations are advised to inform

the FINMA in advance. The company should also explain the date of meeting the compliance and the method of complying with the capital adequacy target.

Upon unintended failure of the to comply with the capital adequacy target, FINMA plays the role of intensifying its supervision and makes awareness to the respective institution and makes clarifications on the causes of the identified trend. All financial institutions should notify FINMA concerning cases of inability to make a profit.

FINMA adopts various supervisory measures regarding unintended failure to comply with the capital adequacy target. In case an institution fails to achieve the target level, FINMA allows the agency to pay fewer amounts of dividends, share backs, and flexible compensation components. FINMA administers more strict requirements of financial institutions in case the adequacy target does not offer full coverage of the risk reports of a particular system.

The article also addresses the requirements of the FINMA concerning different methods of capital planning adopted by various institutions. FINMA expects all financial institutions to exercise massive capital planning. The institution should submit its method of capital planning to FINMA in a written document. It ensures that all financial institutions adopt a capital planning approach that aligns with its size of operation. The capital planning strategy should, therefore, analyze future and the current capital adequacy requirements of the institution.

The method of administration of rule in different financial institutions is a significant concern of this article. The report claims that the executive management of an institution is responsible for determining the capital

planning strategy adopted by the specified organization. Finally, the report argues that institutions that do not comply with the adequacy target should obtain Circulars that stipulates their expected dates of compliance.

Work Cited

FINMA. Capital Buffer and Capital Planning in the Banking Sector. 2011. Print