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Education, Discipline

The Basel rules are recommendations developed by the BCBS (born in 1975 an organization formed by the major central banks around the world) to establish the minimum conditions that a bank should have to ensure stability.

Over the past decades the solvency conditions have been fixing and updating, and thus confirming the agreements Basel I (1988); Basel II (2004), which is in force; and Basel III, which began in 2013 with the ultimate horizon of 2019.

The Basel accords are in charge of setting the basic capital of the entities to address the risks taken by the characteristics of your business. As they have renewed the Basel agreements, have been clarifying the conditions set by these recommendations to ensure the solvency of institutions.

This paper will analyze the agreements signed, and the measures are taken in each on regulatory capital and solvency risk.

What is Basel?

It is one of the various committees that are part of the Bank for International Settlements, based in Basel, and is defined as " an international organization promoting monetary and financial cooperation internationally and performs the function of bank for central banks." The Basel Committee was established in 1974 by the governors of the G-10 to coordinate oversight of international banks. The Committee's recommendations are not mandatory between member countries, despite the influence of the international environment is considerable.

Criticism of Basel II:

Uneven among companies -Treatment low rating regarding unclassified. Unrated firms are assigned a weighting of 100% while the low-skilled have a weight rating of 150%. There is an incentive to not be qualified for those borrowers who anticipate that they will receive a lower BB and thus to have access to low-cost credit rating.

'The ratings are specific to emissions, are not credit opinions on the overall credit quality of the obligor.

'The rating between agencies or among countries not follows an uniform rule in its preparation; thus would be using a methodology that is based on information not comparable.

-The credit rating agencies involved in the weighting of the risks were not impartial and had incentives to underestimate credit risk instruments for conflicts of interest.

He can use internal methods of risk assessment when the institutions themselves erroneous risk management was one of the causes of the recent global crisis.

Basel III

The recent global crisis revealed that the measures agreed in Basel II were not enough to avoid the situation of financial collapse that has been reached.

There were several factors that led to the situation: risk management (despite efforts to control of Basel II, there was an underestimation of risk), the role of credit rating agencies, regulation and supervision, etc. All these factors played a key role in the model defined in Basel II.

In order to address these problems and in order to strengthen the regulation, supervision and risk management of the banking sector, the Basel Committee has developed a set of reforms known as Basel III. Reform of Basel III includes the following elements:

- Hardens the definition of what is considered Tier I
- Increased quality and capital requirements to strengthen the solvency of institutions and ensure their greater capacity to absorb
- Improved capture risks. The calculation of risk is modified for certain exhibitions

The crisis has proven that were poorly captured.

In particular, the activities of the trading book, securitization exposures to off-balance sheet vehicles and counterparty risk those results from exposure in derivatives. In all other respects, the treatment set out in Basel II remains.

- Constitution of capital buffers in good times in the cycle that can be used in times of stress.
- Introduction of a leverage ratio as a supplementary measure to the risk-based ratio of solvency in order to contain excessive leverage in the banking system
- Improved standards supervisory process (Tier 2) and market discipline (Tier 3)

Basel III represents a substantial reform of banking regulation, as it not only modifies the measures included in Basel II, improving the quality and level of capital and capture risks, but also introduces new measures such as capital buffers, ratio leverage and liquidity ratios. This new regulation strengthens

the solvency entities located and better able to withstand future crises. Thus fulfills the objective of providing the financial system more stable. In the pursuit of this greater financial stability, have been taken into account the implications of tightening the rules have for economic growth. Therefore, it has been granted to entities ample time for them to adapt to the new gradual regulation. This last aspect is essential to prevent more stringent requirements have a negative effect on the economic recovery.

Finally Basel III reforms are not an isolated response to the crisis, but are part of a broader set of reforms, led by the G20, which affects the financial system as a whole and the economy in general.

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