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THE CENTRAL BANK OF CENTRAL BANKS

In May 1930, the Bank for International Settlements (BIS) was founded in Basel, Switzerland, as an international organization to "foster international monetary and financial cooperation and serve as a bank for central banks." Today, it is a regulator with Basel Accords that control how much capital major banks need to put aside in order to guard against financial and operational risks. Its latest accords have rules that became effective in the United States on January 1, 2014.

Basel II: Pre-Recession Regulation

In 2004, the Basel Committee on Banking Supervision issued its recommendations for an international standard on the ratio between the amount of risk exposure by a central bank to the amount of its capital held as loss reserves. This accord, the Basel Capital Accords of 2004 (known as Basel II), was met with some disagreement between its European members and the United States, which preferred strong central controls as envisioned in the previous accord, Basel I of 1988.

Basel III: Responding to New Realities

In 2011, the BIS determined that the previous regulations were not sufficient to protect against the threats to banking stability that emerged from the Great Recession of 2008. The focus of the subsequent Basel Accords shifted to one of protecting global banking systems from a "run on the bank," and, accordingly, Basel III adopted varying levels of reserves for different risk activities.

Regulations Expanded to SIFIs

Not only banks, but also insurance companies, brokerage houses and other financial institutions played roles in fomenting the crisis of 2008. Therefore, new regulations defined important players within the financial sector as Systematically Important Financial Institutions (SIFIs), and Basel III rules became applicable to non-banking institutions as well. Definitions were also crafted to distinguish Global Systematically Important Banks (G-SIBs) from Domestic Systematically Important Banks (D-SIBs).

Federal Reserve Adopts Basel III Bank Capital Standards

On July 8, 2013, the U.S. Federal Reserve approved the Final Rule implementing the capital standards required under Basel III. It integrated a single regulatory framework that emphasizes higher capital cushions for banks to absorb losses and also stricter criteria for what qualifies as regulatory capital.

The start date for banking organizations with consolidated total assets of at least $250 billion or consolidated total on-balance sheet foreign exposures of at least $10 billion was January 1, 2014.

Keeping Abreast of Emerging Regulations

The next important start date under the Final Rule applies to regulatory capital ratios for determining risk-weighted assets (RWAs) under the standardized approach. Contact GreenPoint Legal's Banking Compliance experts to learn how our latest technological tools can monitor your organization's red flag compliance dates and avoid costly violations.

PETER K. OVERZAT, ESQ • 212.913.0500 x557 • 917.807.1321 • PETER.OVERZAT@GREENPOINTGLOBAL.COM
DAVID KINNEAR • 212.913.0500 x565 • 917.886.3222 • DAVID.KINNEAR@GREENPOINTGLOBAL.COM • WWW.GREENPOINTLEGAL.COM
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