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# Implementation of Basels Accord in Global Economy
## (With Special Reference to Indian Banking System)

**Abstract**

Bank for International Settlement Constituted a committee of ten Central Bank Governors (G10) (BCBS) in 1974 to give recommendations to solve the problem of liquidity at Global level. BCBS given recommendations topic on entitled Basel 1, Basel 2 and Basel 3 time to time to maintain minimum capital to cover various types of risks, supervision and market discipline to follow in international banking system. Reserve Bank of India also followed the such rules and regulations and obtained better results. BCBS has also started to think over the Basel 4 Accord.

**Keywords:** BIS, BCBS, BASEL, IRB.

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**Introduction**

Due to liquidation problem of Harstatt (Based out of Cologne, Germany) in Frankfurt, Spain and Luxemburg made a Standing Committee in 1974 under the auspices of the Bank for International Settlement (BIS) Switzerland of ten Central Bank Governors (BCBS). Bank for International Settlement is located at Basel place in Switzerland, so that it is called Basel Committee. The mandate of such committee (BCBS) is to make strengthen the rules and regulations, supervision and purpose of banks at international level with the objective of enhancing financial soundness. It meets regularly four times in a year. BCBS submitted Basel 1 norms in 1988 as follows:

**Objectives of the Study**

The main objectives of Basels are as follows:

1. To maintain minimum capital requirement.
2. To cover various types of Banking risks: Operational Risk, Market Risk and Capital Risk.
3. To supervisory control over the banking operations.
4. To do market discipline in the international banking system.

**Review of Literature**

A lot of books and articles have been published on Assets Liability Management of Banks, Operational Risks of Banks and Supervisory Control of Banks as under:

1. Tektas, Arzu, Ozkan, Nur, Gunay and Gokhan (2015) topic on entitled "Asset and Liability Management in Financial Crisis" have established that an efficient Asset-Liability Management requires maximizing banks' profit as well as controlling and lowering various risks.
2. Kern, David Franklin (2016) Ph.D. topic on entitled "Asset Liability Management Practices of Community Bank relative to large banks: Implications for the future viability of community banks" has identified the assets liability structural differences between large banks and community banks.
3. Finch Ruth (2015) discussed in one study topic on entitled "Asset and Liability Management for Banks: a Lawyer's Perspective" that risk management issues and the implications of the Basel Accord have made impact on banks concentrating the minds of the banking industry on these issues.
4. Hasan and Sarkar (2013) told in their paper topic on entitled "Banks Option to Lend, Interest Rate, Sensitivity and Credit Availability" that Interest Rate Risk is a major concern for Banks because of the nominal nature of their assets and the asset-liability maturity mismatch.
5. Rajwade, A.V. (2016) "Issues in Asset Liability Management" stated that Indian Banks have not paid much attention to the topic of management of interest rate mainly because all interest rates were regulated by the Central Bank.

**Research Gap Found**

The review of literature reveals that various studies have been made on Asset-Liability of Banks and Interest Rate Risk by the authors. But nobody consider directly the need of different Basels and Implimentation of different Basels Accord. So that the researcher has selected the present topic "Implementation of Basels Accord in Global Economy (With Special Reference to Indian Banking System)" for study point of view.

**Basel 1**

1. The first norm of Basel 1 was to strengthen the financial stability of International Banking system.
2. The second norm of Basel 1 was to maintain a fair and consistent multinational banking system in order to decrease competitiveness among International Banks.
3. The third norm of Basel 1 was to Cover Credit Risk.
4. The fourth norm of Basel 1 was to maintain minimum amount of capital in International Banks for their liquidity (Capital Adequacy Ratio 8%)

The norm of Basel 1 implemented in Indian Banking system as follows:

1. Basel 1 norms were implemented in India in the year 1992.
2. Basel 1 norms were required to comply within 3 years in those banks which have their branches in abroad and other banks were required to comply by the end of March 1996 in India.
3. Capital Adequacy Ratio was 9% as per R.B.I. norms to maintain liquidity, but as per Basel 1 norm it was only 8%. It means R.B.I. norms were more strengthen than Basel 1 norms.
4. R.B.I. guidelines were different for commercial Banks, Co-operative Banks and Regional Rural Banks (RRBs)

In Basel 1 other than Credit Risk like market risks, liquidity risks and operational risks were not considered. These risks increase the liquidity problems in banks at international level and can reach to insolvency level.

**Basel 2**

So that BCBS submitted Basel 2 norms in the year 2004 to remove the shortcomings of Basel 1 :

1. The Banks should have minimum capital adequacy requirement of 8 percent of risk assets.
2. The Banks were needed to develop and use better risk management tools and techniques in monitoring and managing all the three types of risks :
   (A) Operational Risk
   (B) Market Risk, and
   (C) Capital Risk
3. The all Banks were needed to mandatory disclose their risk exposure etc. to the Central Bank of the country.
4. Basel 2 Accord in India as well as in abroad were to be fully complianced.

The Basel 2 accord were implemented in Indian Banking system as under :

1. The prudential capital adequacy norm was completely overhauled.
2. Internal Ratings Based (IRB) approach was a distinguishing features of the norms.
3. The norms recognize the need for assessment for operational risk. This was a major departure of the new norms, as it was not available in present norms.
4. Banks were required to hold capital over and above the required norms.
5. Bank's Balance Sheet in India would be subject to stringent disclosure norms and further rationalization/standardization of accounting norms etc.

**Basel 3**

Due to US recession 2008, Basel 3 guidelines were released in 2010 by Basel committee. R.B.I. implemented Basel 3 rules since April 2013 and agreed to fully compliance by March 31, 2018 but extended to March 31, 2019.

1. The main object of Basel 3 is to Enhance Minimum Capital and liquidity requirement to make financial strengthen position of the Banks at International level.
2. The second object of Basel 3 is to enhanced over-all supervisions review process for firm, covering all type of risks: operational, market and capital planning to the Banks at global level.
3. The third object of Basel 3 is to enhance risk disclosure and market discipline to the banks at global level.

Ultimately, the Basel 3 Accord are to increase the liquidity status of the Banks at International level. The Government of India also adopting disinvestment policy in public sector banks. The Government of India is also ready to infuse Rs.6990 crore in nine public sector banks for enhancing their capital need. There is also policy of infuse the funds into banks for their liquidation in central budget by Government of India.

**Basel 4**

Implementation of Basel 3 Accord have been extended upto March 31, 2019 so that there is need of Basel 4 Accord. The thinking and framing of Basel 4 Accord are in the mind of BCBS. It will be implemented w.e.f. April 1, 2019 in India as well as all over the world. Basel 4 Accord will remove the short comings of Basel 3 :

1. Calculation of Capital Requirement will be amended.
2. Basel 4 Accord will increase the lending capacity of banks.
3. Basel 4 will cover different type of risks: operational, credit, market etc. in banking sector.
4. Basel 4 Accord will include supervisory function all over the banking sector at international level.

**Conclusion**

All Basels Accord include the solutions of capital requirement, covering various types of risks, supervision control and market discipline entire the banking system at global level.

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