# CHAPTER I

## PREAMBLE

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PREAMBLE

1. **Introduction**

Banks have always been a catalyst to economic growth since its inception in 2000 BC wherein the first prototype bank of merchants in the ancient world was set up to provide loans to farmers and traders who carried goods between the cities. The base of banking has relied solely upon two important functions i.e. accepting deposits and lending money. Though these basic functions remain static and exist even today in the modern day banking arena, but the story has changed manifold. Modern day banks are not just a financial intermediary and a catalyst any more but a stimulator and stabilizer to economic growth, inflation, industrial and agricultural development etc. As banking industry grew over the years locally as well as globally it required a comprehensive regulatory authority to monitor its operations so that it wouldn’t catalyse the economy to a meltdown as we have frequently experienced in the recent past. Therefore, apart from individualistic regulatory authorities’ viz. Reserve Bank of India (India), Securities Exchange Commission (United States of America), Financial Services Authority (United Kingdom), BaFin (Europe) which are the most essential to contain the economic growth and regulate the banking industry in the respective countries but unification of norms requirement was generated on account of globalisation and changing business environments and the growing sensitivity in the global markets brought the Dodd-Frank Wall Street Reform, Sarbanes-Oxley Act and Basel norms into action.

With the advent of globalisation and the rapidly changing business environments worldwide have led to identification of the need to protect the banking industry from the various risks that they are exposed to when they perform their functions. Bank for International Settlements (BIS) formed a committee Basel Committee for Banking Supervision (BCBS) which would analyse and research the various risks in the market that the banks are exposed to and accordingly design reforms to assess, measure and mitigate these risks to ensure that banks remain profitable, risk-free survive, expand and diversify without any failure or collapse. These norms are to be followed and adhered to by the banks over and above all the basic regulations imposed on them by the concerned regulatory authorities.

2. **History and introduction of Basel Norms**

**Bank for International Settlements (BIS)** established on May 17, 1930, is an international organisation of central banks, headquartered at Basel, Switzerland. BIS was established by an
intergovernmental agreement by Rothschild family, the founding member nations being Germany, Belgium, France, Great Britain and Northern Ireland, Italy, Japan and Switzerland. It was originally intended to facilitate reparations through the imposition by the Treaty of Versailles on Germany post World War I.

The mission of BIS is to serve central banks world over in the achievement of the objective **financial and monetary stability**. BIS are not responsible to any single government globally and its customers are international central banks and financial organisations. BIS have several committees and sub-committees, including the Basel Committee for Banking Supervision (BCBS) with its 17 member secretariat played a central role in establishing Basel Accords from 1988 to 2004. BCBS is a consortium of several member nations’ right from Belgium, Argentina, Singapore, Brazil, Canada, Japan, Mexico, Spain, France, Luxembourg, Switzerland, the Netherlands, China, Germany, Russia, Italy, Saudi Arabia, Hong Kong SAR, India, South Africa, Korea, the United Kingdom Indonesia, the United States and Turkey, Sweden formed to perform banking supervision and ensure the quality of banking supervision world over for ensuring a stable financial position which is an essential function of BIS. Since its inception, BCBS has framed guidelines and standard in areas specifically related to banking supervision such as international standards on capital adequacy (popularly known as Basel norms), the Concordat on core banking supervision and Core Principles for Effective Banking Supervision.

BCBS is an autonomous body, because it has not been established by any founding treaty or act. The main objective of BCBS is to ensure that banks internationally follow uniform standards and approaches. The differentiating factor about BCBS is it operates as a free and easy medium to promulgate policies, standards and requisite solutions rather than imposing regulations to be abided by banks world wide.

Division of BCBS into different groups and teams depending upon different tasks to act upon particular issues relating to Basel accord:

- **The Group for Implementation of Standards (SIG)**
  - Task Force on Colleges – incorporated to study and understand Basel Committee’s presentation on supervisory colleges.
  - Operational Risk Subgroup – takes into account matters relating to operational risk under the Advanced Measurement Approach.
• Standards Monitoring Procedures Task Force – outlines procedures and practices in order to monitor and implement the prescribed standards effectively and ensure consistency in its implementation.

• Task Force on Renumeration – encourages implementation of proper compensation framework.

❖ **The Policy Development Group (PDG)**

• Research Task Force – encourages member nation economists to discuss and research financial stability with the academicians.

• Trading Book Group - analyses the risks arising in the trading book and its assessment in the regulatory capital.

• Risk Management and Modelling Group – industry contact group taking regular inputs on the latest advancements in risk management process.

• Liquidity Working Group – operates on international standards for managing and regulating liquidity risk.

• Capital Monitoring Group – the primary responsibility of this group is to co-ordinate the proficiency of the central bank (regulatory authority) in tracking the compliance of Basel norms with respect to capital requirements.

• Definition of Capital Subgroup - capital instruments eligible as per the accord are reviewed by the group.

• Group for Resolution of Cross-border Bank Issues – analyses and collates policies to be implemented within the nation, legal doctrine and the delegation of authority for multinational banks and the distribution of their operations world over.
The Accounting Task Force (ATF) – the main objective is to promote sound risk management in banks through prudent accounting and auditing standards.
- Audit subgroup – addresses key audit issues along with promotion of auditing standards.

The Basel Consultative Group (BCG) – encourages exchange of facts between banking supervisors as well as between banking supervisors and non-member nations.

Coordination Group
It is a team of experienced regulatory policy formulators consisting of the International Association of Insurance Supervisors (IAIS), Chairman, the International Organization of Securities Commissions (IOSCO), the Joint Forum Chairman and Secretariat and Secretaries General of the Committee. Incorporated in 1996 BCBS provides the Basel Committee Secretariat and the Joint Forum of the Coordination Group, which formally engages and coordinates through formal channels with supervisors of non-bank financial institutions. This dialogue is required to handle matters relating to bancassurance inclusive of the provisions of conglomerates of finance. It meets twice every year in order to discuss issues important to supervisory policy formulators. International Association of Deposit Insurers (IADI) is closely associated with BCBS.

The research focuses on international standards on capital adequacy popularly known as Basel norms. The first accord for maintaining adequate capital was introduced in 1988 by several rounds of discussions by its member nations originally formed by G-10 countries. Basel I was enforced by law since 1992 which primarily focussed on credit risk and banked upon a system to demarcate bank assets. The asset classification would allocate weights for risk factors from zero for sovereign debt for home country and moving ahead ten, twenty, fifty and hundred for corporate debts. This was essential to identify the risky credit assets and maintain minimum capital in relation to those risky assets.

The First Concordat for Basel came into action due to the Herstatt bank failure in 1974 which was eventually liquidated by German regulators on account of a number of banks releasing a Deutschemarks in relation to dollar payments that were to be delivered in New York. Due to differences in time zones, there was a lag in dollar payments to counterparty banks and the
Herstatt bank was liquidated even before the dollar payments could be effected on account of high settlement risk which later was termed as the ‘Herstatt Risk’.

Basel I accord sought to put in place a framework to identify credit risk exposure of the bank and hold minimum capital in relation to it to the extent of 8%. **Risk asset ratio or as termed as per Basel norms Ratio for Capital Adequacy (CRAR)** was showcased as a measure to minimum capital in relation to the risky assets identified by the respective banks @ 8% to ensure that the banks would not turn financially unstable even if all its borrowers default or it loses out the surplus invested in the market. In India, RBI being the Regulatory Authority for the banking sector has implemented Basel norms which are followed by banks all over the world. This approach was to be uniformly accepted and applied by banks irrespective of their size, nature of business, degree of complexity of business, concentration of operations in India and abroad. The ‘one approach fits all sizes’ of Basel I was severely criticised and had to be amended through the expansion of financial institutions and boom of financial service industry world over led to growth of risks as well as a need for more stringent and well formulated guidelines which underlines the need not only to maintain minimum capital but also develop methodologies to mitigate the risks.

Initially in India in the year 1992, RBI introduced a **Ratio for Risk Assets** as a provision for keeping sufficient capital at par with the rules laid down by the Basel Committee (Basel I) where risk weights are assigned for non-funded items, assets in balance sheet and other off balance sheet exposures and ratio of benchmark capital to be kept in percentage to the aggregate of risk weighted assets, several miscellaneous exposures and capital stipulations consistently. RBI being on the conservative side raised the bar and ordained the banks in India to maintain the risk asset ratio @ 9%.

The second accord was introduced as a revision to Basel I termed as Basel II in 2004. The norms seek to identify financial risks as well as non-fiscal risks which would make banks financially stable in the short term as well as long term. The minimum capital requirement in relation to risk weighted assets of the bank remains unchanged from Basel I accord @ 8%. Basel II presented a unique III Pillar approach focussing more identifying risks mainly under Pillar I – operational, market and credit. The accord has also identified several risks under Pillar III viz. Risk of interest rate fluctuations in the banking book, risk of liquidity and foreign exchange risk etc. which pose a threat to banks profitability and survival however the
accord does not lay down clear norms for quantification of capital for these residual risks leaving the room open for each banking company to measure and quantify these risks as per their exposure. The objective of the Basel II accord was also to ensure consistency in financial regulations world over in the banking industry on account of the manifold growth in the industry and to make systems more robust so as to protect all economies against a global meltdown. The recent past American sub-prime crisis, Eurozone crisis, Dubai crisis however negates this objective and reflects several loopholes and flaws which require careful attention which are studied in detail under the current research. BCBS has drafted Basel III analysing a few loopholes citing the financial crisis in the recent past and making it more conservative capital holding for banks in the near future.

Banks are instrumental in regulating the demand and supply of the money in the economy as they transform the mobilised savings from several short, medium and long term deposits into corporate credits, MSME financing, funding for rural and agricultural development etc. In the daily routine of business, banks are primarily exposed to operational, market, credit, liquidity, interest rate and reputational risks in the economy. Due to liberalization, more banks and FIs migrated across borders, leading to a more open and a wider market, prone to foreign risk and credit risk requiring stricter and more stringent regulations to protect banks and FIs involving better risk management at the macroeconomic level, including those which monitor foreign exchange exposure, restrict insider trading, limit credit and exchange rate risk. Most countries have incorporated the Basel standards into their legal structure to build and maintain the financial soundness of their commercial banks. Basel norms advocate maintenance of minimum adequate capital (capital adequacy) which acts a buffer preventing the bank from going bankrupt as opposed to the collapse of Lehman Brothers and several other institutions during the sub-prime crisis as well as the Eurozone crisis.

The capital component of the bank can be divided into regulatory or economic capital which the bank maintains as the actual capital. Regulatory capital is the capital to be maintained by regulation or as ordained by the concerned regulatory authorities, Bank for International Settlements (BIS), an international body whose mission is to fulfil central banks objective in the achievement of financial and monetary stable position, has formulated a committee called BCBS which has identified the need to strictly maintain capital to a ratio in response to its operational, market and credit risks by banks world over. Economic capital is the amount of risk capital, assessed on a realistic basis, which a firm requires to cover the
risks that it is running or collecting as a going concern viz. operational, market and credit risk or any other type of risk the bank may be exposed to in proportion to its size, nature of business, complexity of operations, expansion and diversification as well as the business and economic environment it is operating in. It is the amount of money which is needed to secure survival in a worst case scenario. Firms and financial services regulators should then aim to hold risk capital of an amount equal at least to economic capital. Thus each bank needs to link its internal capital requirements (capital adequacy) to its economic capital and secure its financial position in the market.

The BCBS has formulated the Internal Capital Adequacy Assessment Process (ICAAP) ensuring banks globally adhere to the Basel norms and maintain atleast regulatory capital as all banks are unable to accurately assess the economic capital requirement. BCBS has well laid down several techniques to identify the capital requirement under each risk category right from the Basic to Advanced approaches which can be applied by smaller and unsophisticated banks to large multinational and globalised ones.

The factors affecting ICAAP and requiring regular disclosure under Basel norms and also considered for the purpose of research are as follows:

1. The composition of Tier I and Tier II capital of the banks.
2. The approaches for the identification and assessment and mitigation of the exposure to operational, credit and market risks which constitutes as Pillar I under Basel norms.
3. The structure of the Supervisory Review Process in each bank to carry out the ICAAP which constitutes Pillar II of the accord.
4. The methodology for the assessment and mitigation for the residual risks constituting Pillar III of the accord.
5. The composition, role and functions of the Asset Liability Management Committee in every bank in order to regulate the capital flow and ensure optimum liquidity.
6. The role and effectiveness of corporate governance in assessing and ensuring that banks abide by the norms and maintain stipulated regulatory capital and how far it can go in terms of maintaining financial stability in the economy.
In India, RBI being the Regulatory Authority for the banking sector has implemented Basel norms, formulated by BCBS. Initially in 1992 April, RBI introduced a system of computing **Risk asset ratio** as a provision of keeping effective capital at par with the guidelines defined by the Basel Committee (Basel I) where assignment of risk weights is undertaken for assets in balance sheet, non-funded items and other off balance sheet exposures and the benchmark capital to be maintained as a percentage to the aggregate of risk weighted assets, and various other exposures and expectations of capital in the trading book consistently. Down the years Basel I was replaced by Basel II guidelines, where banks need to allocate **Capital for Risk Weighted Assets Ratio (CRAR) at 9%** (which remain unchanged from Basel I), the predominant reason for adopting Basel II norms was that, it recognizes both credit and operational risks apart from market risk as the primary sources of risks and directs banks to allocate adequate amounts of capital for these types of risks unlike Basel I. The revision in the concordat provided a slew of techniques for the determination of the capital requirements for credit risk and operational risk to permit banking companies and regulatory authorities to choose and implement techniques most suitable as per banking activities and capital markets.

The main structure of Basel II rests on ‘III Pillar’ concept:

1. Minimum/Base requirement of capital.
2. Supervisory review of capital adequacy.

I. **The Pillar I:** It outlines the maintenance of supervisory capital for three major risk components – Credit, Operational and Market risk.

II. **The Pillar II:** It provides framework for dealing with residual risks which can arise as concentration risk, systemic risk, pension risk, liquidity risk, strategic risk, reputational risk and regulatory risk. This pillar enables banks to review their **Risk Management System** thereby encouraging banks to improve their systems by integrating better risk management techniques for risk identification and risk assessment. Regulatory authorities can monitor the assessment of the authoritative benchmark CRAR to be kept by banks in proportion to their risks and to intervene, where appropriate. An important component of the SREP is **Internal Capital Adequacy Assessment Process (ICAAP).**
III. **The Third Pillar:** This pillar targets greater financial stability in the industry. Market discipline promotes disclosure of the capital maintained by the banks along with the risk management techniques integrated in their banks. This public disclosure enables market participants such as financial analysts, investors, customers, other banks and rating agencies to analyse the capital adequacy position of banks.

Unfortunately, it is cited through the research that Basel norms cannot completely penetrate or be imbibed into the mechanism of the global banking system due to several flawed features and even the methodology prescribed by the accord makes the banking system conservative and less profitable which goes against the need of the hour making it challenging for them to survive. The 2007 market turmoil and the Eurozone crisis out rightly agreed to the fact that there is an urgent need by the world regulators to overhaul several aspects under Basel II doctrine to enhance the resistance of the economy and the banking system. Thereby, to safeguard the banks world over yet another amendment to the existing Basel II norms led to introduction and implementation of Basel III accord.

The Basel III accord primary motive is to protect banks against economic distress which is a pre-requisite for overall economic and financial development of any country. It further aims to increase the capital base as compared to Basel II norms and ensure strong and stringent governance and disclosure norms by the concerned regulatory authorities. The framework strengthens and stabilises the banking sector by enhancing the course of action particularly for banking matters inclusive of norms which are macro-prudential. The three pillar approach of Basel II accord is constant under Basel III as well with the following key features:

- **Enhanced capital quality:** better quality of capital results in high loss absorbing capacity. This will result in banks becoming fundamentally strong in terms of capital cushion and increased potential for survival in times of financial meltdown.

- **Capital conservation buffer:** under Basel III demand banks to keep a contingent fund of 2.5% as buffer conservation capital. This is another measure to further strengthen loss bearing ability of the banks.
• **Countercyclical buffer:** it is a measure to control liquidity with the banks in order to increase the liquidity in times of distress and reduce it in boom periods. The buffer will range from 0%- 2.5% comprising of equity share capital and other capital components which can completely absorb capital.

• **Leverage ratios:** reviewing the global meltdown of 2007 negated the assumption of degradation in the asset valuation at a higher rate in comparison to the historical data. Therefore, as a precautionary measure leverage ratio is introduced under the Basel III accord. A leverage ratio is the quantum of moderate capital measured in proportion to all the assets which are not assigned risk weights. This leads to capping the swelling of leverage in the banking sector globally. In January 2018 a mandate for leverage ratio will be implemented after testing the implementation of the existing 3% leverage ratio for Tier I.

• **Liquidity ratio:** for stronger liquidity risk management, Basel III enforces Ratio for Liquidity Coverage (LCR) and a Ratio for Net Stable Funding (NSFR).

• **Systemically Important Financial Institutions (SIFI):** The macro-prudential architecture a premier segment of Basel III imposes identification of systemically important banks and expects them to have loss-absorbing capacity beyond guidelines. Provision for capital contingency, bail-in-debt and surcharge for capital are different alternatives for SIFI in the adherence to Basel doctrine.

• **Minimum Common Equity and Tier 1 Capital Requirements:** Basel III has raised the need for equity share capital, the apex component of capital for absorbing losses from 2% - 4.5% of the total assets allotted risk weights. An appreciation from the existing lowest levels of 4% - 6% in the aggregate capital of Tier I including equity but other eligible financial securities. On account of the revisions in the level of capital the expected overall capital will escalate to 10.5% taking into account the capital conservation buffer, though the lowest demand for capital requirement will remain at the present 8% level.
3. Implications of Basel Norms on Banks in India (Problem on hand)

Basel II guidelines were implemented in India in the banking sector in a phased manner. Multinational banks in India and Indian banks with cross-border expansion and all Indian banking companies had to ensure complete compliance with Basel II by 31st March 2009. Capital Adequacy Ratio (CRAR) of 8% and Tier I capital of 6% was mandatory under Basel II. The banks operating in India under the purview of RBI must maintain a minimum CRAR of 9% applicable from 31st March 2009 as per RBI. On account of conservative nature of RBI, it raised the bar for CRAR by a mere percent as compared to the International Accord. Basel II guidelines with respect to maintenance of CRAR and Tier I capital are well complied by private banks. On the contrary, public sector banks are required to maintain a cushion of capital with a capital adequacy ratio of minimum 12%, more than the base requirement of CRAR ordained by RBI. It was observed that the Indian banking companies maintained a CRAR in the range of 10-15% and even more where the mandate stated a minimum CRAR of 8-9%. This required the banks to raise huge amounts of capital from the open market as well as nationalized banks required timely recapitalisation from the government as the bank’s risk weighted assets went on increasing. Failure to comply with the Basel norms can attract RBI action in the form of restricted investment and lending activities.

Thus the maintenance of CRAR posed innumerable challenges before the Indian banks viz.

1. Higher levels of CRAR prescribed by RBI and GOI as compared to the international accord resulted in large amounts of capital lying idle and it thereby impacted the productivity of Indian banks to a large extent.

2. Increased levels of CRAR also deeply impacted the liquidity with Indian banks wherein RBI had to control the same with other measures like balancing the repurchase agreements, interest rates, other open market operations etc.

3. Since the government’s stake in the nationalised banks cannot decline beyond 51% therefore these banks cannot opt for equity funding through IPO for increasing their capital under Tier I. This requires recapitalisation by the government phase by phase which made the government allocate resources exclusively in the budget for recapitalising the nationalised banks. In the Interim Budget presented by the UPA government, approx. ₹200bn were embarked for re-capitalization of nationalised...
banks whose capital adequacy ratio is lower than 12%, along with other government run banks for progressive expansion in the near future. UCO bank, Vijaya Bank and Central Bank whose tier I capital was lower than 6% would be recapitalized in the first round through a package of ₹38bn. Recapitalization phase II would involve infusion of capital in Bank of Maharashtra through an indepth blueprint, as its Tier I capital is less than 6%. Since the 76% of the stake holding rests with the government in this bank, much higher than the expected 51 %, there is good chance for dilution of equity. However, the poor financial scenarios or recessionary phases in the economy may render an equity issue difficult. Though recapitalisation by the government serves as a precautionary measure in providing a capital cushion to the banks but it impacts the resources of the government which are required to be used for essential economic and industrial development.

4. In the course of its implementation it was observed that CRAR is merely a percentage of reserve cash to provide a capital cushion in turbulent times preventing the bank from bankruptcy but it is not a solution to increased risks which are borne by the banks.

5. There are several techniques prescribed by the Basel accord to identify, measure the various financial risks faced by the banks but the independent strategy to mitigate these risks need to be decided by the banks itself.

6. Smaller banks faced paralysis of capital as their existing resources were locked up majorly in CRAR and the residual were employed in the setting in place the risk management procedures.

7. The accord does not clearly specify setting up of integrated risk management teams or a full fledged risk department within the bank. This has led to fewer banks having a comprehensive risk management department which is a pre-requisite for efficacy in managing risk systems in a bank. The team constituted for managing risk performs the function of identification, measurement, mitigation and governance over the bank practices and ensures compliance with the statutory norms at every stage.

8. Identification and apportioning of risk weights to credit exposures served as another major challenge. The risk weights though were standardised and prescribed by the
international accord wherein government based credit exposures carry 0% risk and other exposures range from 25%-100% depending upon the credit worthiness of the borrower. However it was observed that these standardised risk weights did not hold the said impact for all banks, it varied depending upon the size, capital base and the category of bank.

9. External credit rating agencies identified by RBI fulfilling the qualifying criteria defined under the new concordat play an important role by assigning credit ratings. These ratings are essential under the standardised approach for credit risk management. As these rating agencies are chosen by RBI viz. CRISIL, ICRA, CARE, Fitch Ltd. as well as from their international counterparts Moody’s, Standard & Poor, Fitch Ltd. for the allotment of weights for risk factors for adequate capital banks rely upon the ratings assigned by them. For allocation of weights for risk factors and managing risks banks should utilise the selected ratings and credit rating agencies for each type of claim continuously. The estimations undertaken by different credit rating agencies are not allowed to be ‘cherry picked’ by banks. The names of credit rating agencies risk weighting the assets of the banks must be disclosed by them. RBI determines the weights for risk factors correlated with specific grades for rating every credit rating agency entitled and the overall assets assigned risk weights. For providing ratings for risk management under Basel II credit rating agencies CRISIL and CARE have entered into a MOU with Indusind bank and Allahabad bank respectively.

10. Comprehensive disclosure requirements from banks are demanded under Pillar III. Banks must set up its IT infrastructure in such a way that it supports data collection and generates MIS which is required for disclosures under Pillar III, thereby requiring additional capital to be spent for the above. The utility of Basel I was highlighted by the fact that it fulfilled the lack of coordination between need for capital and profiles of risk for scheduled commercial banks. Basel II focuses on the need for banks to identify and distinguish between the credit qualities of individual borrowers. Better reporting systems and increased transparency will be integrated in the banking system on account of Basel II. Consistent improvement in the quality of assets as well as internal loss data by banks
also as per norms banks are required to maintain minimum database of previous five years inclusive of a financial catastrophe.

4. Objectives of the study

1. To understand and analyse the composition of capitals under Tier I and Tier II.

2. To study the risks covered under Pillar I (credit, market, operational) of the accord and compare its mitigation measures across banks.

3. To compare the capital adequacy ratio (CRAR) maintained by banks and analyse its supervisory review process under Pillar II.

4. To study the residual risks covered under Pillar III and compare its measurement and mitigation techniques across banks.

5. To understand the composition and the risks assigned to assets other than investments and advances also taking into account the Asset- Liability Management System of banks which thereby states analyzing the banks Stress- testing mechanism majorly enabling the banks to provide for a Capital Adequacy Ratio (CRAR) @ 9%.

6. To compare the functioning of foreign banks set up in India against the operations of the same foreign banks established in their home countries abroad as well as functioning of the Indian banks set up in foreign countries against the operations of the same banks in India with respect to compliance with Basel guidelines and their exposure to different types of risks in the respective markets.

7. To understand the corporate governance mechanism adopted by banks to fulfil the regulatory requirements and ensure smooth functioning of the banks.

5. Importance of the study

The extensive literature survey has brought to the forefront that Basel norms were primarily introduced to mitigate risks and safeguard banks for market and credit risk thereby strengthening the financial position leading to financial stability in the economy not only local but global. Further, Basel II came into the picture with operational risk under its Three Pillar Approach. Innumerable researches conducted by far have made comparative analysis between old and revised Basel doctrine and the various criticisms for as to why Basel I was
revised. Research done in respect of Basel II indicates the impact of the norms on the risk assessment and mitigation of banks in India and world over. Researchers have analyzed the Basic, Standard and Advanced Approaches laid down by Basel II and its impact, risk testing mechanism, challenges or difficulties put forward by them on the banks implementing these approaches phase by phase.

Basel Committee for Banking Supervision (BCBS) has crafted and enforced these norms world over with Basel III norms in the pipeline with a view to avert the global meltdowns and financial crisis with regard to Herstatt Bank failure, Economic Recession in the United States and the recent Eurozone Crisis. Thus, several researches have been undertaken in this regard whether Basel norms are the solution to these global meltdowns and if not, then what are the loopholes in these norms which have continued to lead to crisis in the international markets despite its implementation. In view of these crises, a researcher has strongly advocated the revision of Basel I Accord instead of moving ahead to implementing Basel III norms which would be further more complex and prove to be uneconomical in the long run if it fails to provide the desired results caused by the underlying detrimental factors which are pushed ahead from the first accord without any revision.

The following study aims to primarily study the influence of revised Basel norms on the banks operating in the home country as well as overseas and to understand their current risk assessment, risk mitigation, the compositions of their capitals, investment strategies, asset liability management systems, disclosures, mechanisms of operating in the home and host country with a core idea of evaluating whether these banks are strongly following the norms and strengthening their financial position to withstand the various risks they are exposed to. The findings of this research will lead to an important conclusion that whether these norms are suitable for Indian banks and whether they serve the whole purpose of protecting the banks with its sophisticated approaches which will in turn protect them and the economy from a major collapse. Thus, the research will bridge the gap by providing substantiate evidence to whether these norms will be successful in being the shield for the banking sector and the risks faced by them worldwide along with the identification of the underlying ambiguities involved in it which prove to be the ultimate challenge which has to be taken under consideration for successful implementation and risk aversion for meltdown, leading to financial stability.
6. Scope of the study
The study will focus on analyzing different parameters for maintaining capital adequacy which are taken into account by banks with respect to the ongoing Basel II norms implemented all over the country.

The above study will be based on the primary research conducted on the following banks operating in India:

1. Private Banks
2. Nationalized banks
3. Foreign banks

Researchers world over have analysed several reasons which have led to failure of the Basel II norms to safeguard banks, the research aims at critically examining the various parameters of the Internal Capital Adequacy Assessment Process outlined as per the accord to maintain adequate capital as well identify, measure and mitigate the Pillar I & III risks identified by the accord and make the banks resilient to economic downturns and thereby ensuring financial stability in the economy locally as well as globally.

The research also provides an insight into Basel III norms which are soon going to be implemented in the banking sector in India, and already in process in the global banking sector so whether Basel III can be a remedy to the drawbacks of the Basel II norms.
REFERENCES


