

DIRECTED RISK RESEARCH PROBLEM STATEMENT

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| Risk Theme | Enterprise Risk | Project Nr. | PS15003 |
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PROJECT TITLE: Meeting the Basel III minimum capital requirements

PROJECT GOAL

To develop a model to assist banks to optimally meet the Basel III minimum capital and liquidity requirements and highlighting possible constraints or areas of concern the banks may face.

HIGH LEVEL DESCRIPTION OF PROBLEM

In addition to the Basel II capital ratio, Basel III requires banks to comply with additional ratios namely the leverage ratio, liquidity coverage ratio and the net stable funding ratio. Banks are required to meet all four ratios at any time which can be challenging due to the dependencies between these ratios and the impact of changes to the banks' business and risk strategies on these ratios. These minimum requirements are also likely to impact the profitability of the bank and could result in a change in the demand from short-term funding to long-term funding which could contribute to the difficulty in complying with these minimum requirements.

PROJECT OBJECTIVES

The objectives of this project are:

- Develop a model to assist banks to optimally meet the Basel III minimum capital and liquidity requirements
- Determine the dependencies between the ratios
- Highlight possible constraints or areas of concern the banks may face such as the impact of changes to the banks' business and risk strategies on these ratios
- Determine possible implications of these requirements on a bank and the banking sector in South Africa such as a possible increase in shadow banking

OUTPUTS REQUIRED

- A paper in the academic financial literature
- Practical Guidance to the industry to optimally meet the Basel III minimum capital and liquidity requirements

STRATEGIC VALUE TO DIRECTED RISK RESEARCH

This research will contribute conceptually and possibly also materially to the field, namely meeting Basel III minimum capital and liquidity requirements in the banking industry.