The completion of Basel III – the start of something new

Swedish Centre for Business and Policy Studies
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First Deputy Governor
Basel III is good for Sweden
Financial crises are costly

Sources: National Institute of Economic Research and Sveriges Riksbank
Basel I - same risk weights for all banks

Risk weights according to tables

<table>
<thead>
<tr>
<th>Exposure</th>
<th>Risk weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government</td>
<td>0%</td>
</tr>
<tr>
<td>Bank</td>
<td>20%</td>
</tr>
<tr>
<td>Mortgages</td>
<td>50%</td>
</tr>
<tr>
<td>Corporate</td>
<td>100%</td>
</tr>
</tbody>
</table>
Basel II - allows internal models

- Capital requirement
- Risk-weighted assets
- Total assets

Risk weights according to internal models

\[ dX = a(X)dt + b(X)dW \]
The Riksbank like many other countries wants to see a higher leverage ratio requirement

<table>
<thead>
<tr>
<th>Country</th>
<th>Level</th>
<th>Introduced or being introduced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>4 per cent for systemically important institutions</td>
<td>No later than 2018 (planned, not decided)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5 per cent for systemically important institutions</td>
<td>Up to 2019</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3-5 per cent</td>
<td>Up to 2019</td>
</tr>
<tr>
<td>United States</td>
<td>5-6 per cent</td>
<td>2018</td>
</tr>
</tbody>
</table>

Source: The Riksbank, Financial Stability Report 2016:1
The use of internal models has led to lower risk weights in the major banks

Note. Per cent.

Sources: Finansinspektionen, bank reports and the Riksbank
Basel III leads to smaller differences in capital requirements for similar banks
Sweden has a large share of national special requirements

- **SEK 550 billion** CET 1 capital
- **SEK 510 billion** CET 1 capital requirement
- **SEK 2,800 billion** Risk-weighted assets

Minimum requirements: 18%
Sweden’s special requirements need to be reviewed

- CET 1 capital
- Risk-weighted assets

National special requirements
Minimum requirements

SEK 550 billion
SEK 4,500 billion

18%
The banks determine the respectful distance from the capital requirements
Basel III is good for Sweden

Sweden’s special national requirements should be reviewed when Basel III is introduced
Thank you!