Impact of Basel I, Basel II, and Basel III on Letters of Credit and Trade Finance

Requirement	Basel I	Basel II	2013/2014	Basel III 2015	2019/2018
Common Equity		2.0% of RWA	3.5% of RWA	4.5% of RWA	4.5% of RWA
Tier 1 Capital	4.0% of RWA	4.0% of RWA	4.5% of RWA	6.0% of RWA	6.0% of RWA
Total Capital	8.0% of RWA	8.0% of RWA	8.0% of RWA	8.0% of RWA	8.0% of RWA
Capital Conversion Buffer			-0-	-0-	+2.5% of RWA
Counter Cyclical Buffer					+Up to 2.5% of RWA
Additional Loss Absorbency					+1% to 2.5% of RWA
Leverage Ratio (based on Tier 1 Capital) (based on Total Capital)			Observation	Observation	3%-5% of RWA (4% of direct assets)
Liquidity Coverage			Observation	21 days (30 days)	21 days (30 days)
Net Stable Funding			Observation	Observation	1 year

Color Code Key (US Applicability): **(Applies only in the US)**
In the US, applies only to "Large, Internationally-Active Banks"
Applies to Globally Systemically Important Banks

- The amount of Risk-Weighted Assets ("RWA") is computed by multiplying the amount of each asset and contingent asset by a risk weighting and a Credit Conversion Factor ("CCF").
  - Under Basel I, risk weightings are set: 0% for sovereign obligors, 20% for banks where tenors ≤ one year, 50% for municipalities and residential mortgages, 100% for all corporate obligors.
  - Under Basel II, risk weightings are based on either internal or external (rating agency) risk ratings with no special distinction for banks; capital requirements for exposures to banks are increased by as much as 650% (from 20% to as much as 150%).
  - The Credit Conversion Factor for Letters of Credit varies under Basel I vs. Basel II and Basel III:
    - Under Basel I, this is 20% for commercial L/Cs, 50% for performance standbys and 100% for financial standbys; confirmation of a commercial letter of credit has a capital requirement of 0.32% (8% x 20% x 20%).
    - Under Basel II and III, "Sophisticated Banks" are required to do a statistical analysis of losses based on structure (and, due to limited losses, there are insufficient loss data for any bank in the world to do this for letters of credit, resulting in using the default CCF of 100%). Under Basel II, the capital requirement to confirm a letter of credit can jump from 0.32% to 12% (8% x 150% x 100%).
    - Under Basel III, exposures to regulated financial institutions with assets of over USD100 billion and to all unregulated financial institutions must be multiplied by an additional factor called the Asset Value Correlation (AVC). The capital requirement to confirm a letter of credit can be as high as 29.0625% (15.5% x 150% x 100% x 1.25), almost 100 times the requirement under Basel I.
- In the US, Basel II only applies to "Large, Internationally-Active Banks"—the 9 largest commercial banks fit the definition—and has never been fully implemented. Basel III-Advanced is expected to be applicable to the same banks while Basel III-Standardized applies to *all* US banks.
- Basel III-Standardized is not the same in the US as in the rest of the world. Outside the US, it uses risk weightings based on rating agency ratings; as such use of rating agency ratings is now prohibited by in the US by the Dodd-Frank Act, risk weightings for sovereign obligors and for banks are based on Country Risk Classifications (CRCs) set by the OECD and

range from 0% for sovereign obligors and 20% for banks to 150% for both, while the risk weighting for all corporate obligors is 100%, the same as under Basel I.

- The Capital Conversion Buffer distinguishes what used to be called “well-capitalized banks” and is, essentially, required. Thus, the capital requirement for even a small bank becomes 10.5% in 2019, compared with 8% under Basel I and Basel II.
- The Additional Loss Absorbency requirement applies only to “Globally Systemically Important Banks”; this is presently 29 of the largest banks in the world.
- Depending on the bank and the point in the economic cycle, under Basel III, the total capital requirement for a large bank in 2019 may be as much as 15.5% of Risk-Weighted Assets (“RWA”).
- In the US, banks with more than $700 billion in assets are required to maintain a ratio of 5% of Tier 1 Capital to total direct and contingent assets and there is an additional requirement that Total Capital be at least 4% of direct assets.

**Risk Weights for Exposures to Sovereign Obligors
under Basel III-Standardized Approach in the US**

		Risk Weight
Sovereign CRC*	0-1	0%
	2	20%
	3	50%
	4-6	100%
	7	150%
No CRC*		100%
Sovereign Default		150%

**Risk Weights for Exposures to Foreign Banks
under Basel III-Standardized Approach in the US**

		Risk Weight
Sovereign CRC*	0-1	20%
	2	50%
	3	100%
	4-7	150%
No CRC*		100%
Sovereign Default		150%

*Country Risk Classifications (CRCs) are set by the OECD
(available at http://www.oecd.org/tad/xcred/crc.htm)

US Commercial Banks meeting the definition of "Large, Internationally-Active Bank"
(over USD250 billion in assets or over USD10 billion in on-balance-sheet foreign exposure)
as of June 30, 2012:

Rank	Institution Name	Location	Total Assets (000s)
1	JPMORGAN CHASE & CO.	NEW YORK, NY	$2,290,146,000
2	BANK OF AMERICA CORPORATION	CHARLOTTE, NC	$2,162,083,396
3	CITIGROUP INC.	NEW YORK, NY	$1,916,451,000
4	WELLS FARGO & COMPANY	SAN FRANCISCO, CA	$1,336,204,000
5	U.S. BANCORP	MINNEAPOLIS, MN	$353,136,000
6	BANK OF NEW YORK MELLON CORPORATION	NEW YORK, NY	$330,490,000
7	HSBC NORTH AMERICA HOLDINGS INC.	NEW YORK, NY	$317,482,381
8	PNC FINANCIAL SERVICES GROUP, INC.	PITTSBURGH, PA	$299,712,018
9	CAPITAL ONE FINANCIAL CORPORATION	MCLEAN, VA	$296,698,168
10	TD BANK US HOLDING COMPANY	PORTLAND, ME	$207,333,395
11	STATE STREET CORPORATION	BOSTON, MA	$200,368,976
12	BB&T CORPORATION	WINSTON-SALEM, NC	$178,529,372
13	SUNTRUST BANKS, INC.	ATLANTA, GA	$178,307,292
14	RBS CITIZENS FINANCIAL GROUP, INC.	PROVIDENCE, RI	$129,313,757
15	REGIONS FINANCIAL CORPORATION	BIRMINGHAM, AL	$122,344,664
16	FIFTH THIRD BANCORP	CINCINNATI, OH	$117,542,579
17	BMO FINANCIAL CORP.	WILMINGTON, DE	$112,165,541
18	NORTHERN TRUST CORPORATION	CHICAGO, IL	$94,455,895
19	UNIONBANCAL CORPORATION	SAN FRANCISCO, CA	$87,939,869
20	KEYCORP	CLEVELAND, OH	$86,741,424
21	SANTANDER HOLDINGS USA, INC.	BOSTON, MA	$82,943,616
22	M&T BANK CORPORATION	BUFFALO, NY	$80,807,578
23	BANCWEST CORPORATION	HONOLULU, HI	$78,655,826
24	BBVA USA BANCSHARES, INC.	HOUSTON, TX	$66,013,042
25	DEUTSCHE BANK TRUST CORPORATION	NEW YORK, NY	$64,994,000
26	COMERICA INCORPORATED	DALLAS, TX	$62,756,597
27	HUNTINGTON BANCSHARES INCORPORATED	COLUMBUS, OH	$56,622,959
28	ZIONS BANCORPORATION	SALT LAKE CITY, UT	$53,418,819
29	UTRECHT-AMERICA HOLDINGS, INC.	NEW YORK, NY	$46,125,000
30	NEW YORK COMMUNITY BANCORP, INC.	WESTBURY, NY	$43,501,094

Banks designated as Global Systemically-Important Banks as of November 2013:

Institution Name	Location
JPMORGAN CHASE & CO.	UNITED STATES
BANK OF AMERICA CORPORATION	UNITED STATES
CITIGROUP INC.	UNITED STATES
WELLS FARGO & COMPANY	UNITED STATES
GOLDMAN SACHS GROUP, INC.	UNITED STATES
MORGAN STANLEY	UNITED STATES
BANK OF NEW YORK MELLON CORPORATION	UNITED STATES
STATE STREET CORPORATION	UNITED STATES
CREDIT AGRICOLE	FRANCE
BNP PARIBAS	FRANCE
GROUPE BPCE	FRANCE
SOCIETE GENERALE	FRANCE
DEUTSCHE BANK	GERMANY
UNICREDIT GROUP	ITALY
UBS	SWITZERLAND
CREDIT SUISSE	SWITZERLAND
ING GROUP	NETHERLANDS
BANCO SANTANDER	SPAIN
BBVA	SPAIN
NORDEA	SWEDEN
ROYAL BANK OF SCOTLAND	UNITED KINGDOM
HSBC	UNITED KINGDOM
BARCLAYS	UNITED KINGDOM
STANDARD CHARTERED	UNITED KINGDOM
MITSUBISHI UFJ	JAPAN
MIZUHO	JAPAN
SUMITOMO MITSUI	JAPAN
BANK OF CHINA	CHINA
ICBC	CHINA

- **The list of G-SIBs is updated by the Basel Committee on Banking Supervision each November using year-end data from the previous year.**
- **Each bank receives a score is based on (1) size, (2) cross-jurisdictional activity, (3) interconnectedness, (4) substitutability/ financial institution infrastructure, and (5) complexity**
- **Score places each institution in a bucket with additional loss absorbency requirements from 1.0% to 2.5% (potentially 3.5%)**