Implementation of Basel III Framework in Mauritius

1.0 Introduction

The Basel III framework which supplements Basel II was drawn up by global regulators, i.e. the Basel Committee for Banking Standards (BCBS) to prevent a repeat of the global financial crisis. Basel III is a set of global reforms designed to improve the regulatory, liquidity standards, supervision and risk management within the banking sector. These norms aim to further enhance the resilience of banks and the banking system and also reduce the risks of any spill-over from the banking sector to the real economy. *(For more information on Basel III, please click here).*

The implementation of Basel III capital requirements started as from 1 January 2013 and included transitional arrangements until 1 January 2019. A number of countries have missed the globally-agreed Basel III implementation date of 1 January 2013. However, different jurisdictions have made significant progress where they have adopted different phases of implementation. As per the BCBS Report to G20 Leaders on monitoring implementation of Basel III regulatory reforms dated August 2013, 25 out of the 27 jurisdictions that comprise the Basel Committee have now issued the final set of Basel III based capital regulations.

As such, Mauritius which had already implemented the Basel I Capital Accord and Basel II Framework and has now embarked on the implementation of Basel III rules to be in line with the international regulatory standards as stated above.

2.0 A Case for Mauritius

In October 2012, the Bank of Mauritius (BoM) released a Consultation Paper: *"Implementation of Basel III in Mauritius"* for the banking industry outlining its proposed implementation of the Basel III Capital Reforms.

The Paper consisted of Capital Reforms namely; capital buffers and leverage ratios and Liquidity Reforms. The additional capital buffers introduced comprised of Capital Conservation Buffer and Countercyclical Capital Buffer, designed to be used in times of stress and to protect banking systems against risks involved with excess credit growth.

Banks were requested to submit to BoM a Quantitative Impact Assessment (QIS) for implementing the proposals set out in this Paper, specifying whether their capital instruments meet the eligibility criteria of Basel III and details of the main features of capital instruments reported under Common Equity Tier (CET) 1, Additional Tier 1 and Tier 2 Capital.

2.1 Implementation of Capital Adequacy Rules

BoM issued a Draft Guideline on Scope of Application of Basel III and Eligible Capital in May 2013 setting out the rules and timelines to implement some of the elements related to the strengthening of the capital framework. Following consultations with banks on the draft, a final Guideline was released in June 2014 effective as from 1 July 2014.

This Guideline supersedes the previous Guideline on Eligible Capital issued in April 2008 and the Guideline on Scope of Application of Basel II issued in May 2008 by BoM.

Banks will, therefore, have to meet Basel minimum capital requirements and regulatory adjustments as from 1 July 2014 phased-in until 1 January 2020 for full implementation.

(Please refer to Annex 1: Phase-in arrangements of capital requirements for banks operating in Mauritius).

2.2 Timeline of Basel III Implementation

Capital requirements

- From 1 July 2014 onwards, banks will have to meet the following minimum capital requirements expressed in risk-weighted assets: 6.5% Common Equity Tier 1, 8% Tier 1 Capital and 10% Total Capital Adequacy Ratio (CAR).
- Over and above the minimum total CAR, banks are also required to maintain a capital conservation buffer of 2.5% comprising of CET1. This framework is applicable to all banks as from 1 January 2017 through 1 January 2020.
- Transitional arrangements are in place to ensure that banks are able to meet the capital requirements.
- Banks in Mauritius will have to maintain a CAR of 10% compared to a CAR of 8% as proposed under the international Basel III norms. BoM has thus prescribed more stringent norms for prudential reasons.
- The current level of capitalisation maintained by banks is well-above the regulatory minimum of 10%.

(For more information on the above documents, please visit BoM's website)

3.0 Conclusion

While implementation of the Basel III Framework in Mauritius is another step forward to strengthen the local banking system's resilience and competitiveness, Mauritian banks are already well-capitalized in terms of both the quality and quantity of capital and are also well-managed. The necessary regulatory adjustments of banks are also embedded in the risk management strategies of banks.

Other aspects of Basel III such as leverage ratio and liquidity standards would be addressed at a later stage by BoM.

Annex 1: Phase-in arrangements of capital requirements for banks operating in Mauritius

	2014	2015	2016	2017	2018	2019	2020
	1 July	---------------- *(All dates are as of 1 January)* ----------------					
Minimum CET 1 CAR	5.5 %	6.0 %	6.5 %	6.5 %	6.5 %	6.5 %	**6.5 %**
Capital Conservation Buffer				0.625 %	1.25 %	1.875 %	**2.5 %**
Minimum CET 1 CAR plus Capital Conservation Buffer	5.5 %	6.0 %	6.5 %	7.125 %	7.75 %	8.375 %	**9.0 %**
Phase-in of deductions from CET 1*		50%	50%	60%	80%	100%	**100%**
Minimum Tier 1 CAR	6.5 %	7.5 %	8.0 %	8.0 %	8.0 %	8.0 %	**8.0 %**
Minimum Total CAR	10.0 %	10.0 %	10.0 %	10.0 %	10.0 %	10.0 %	**10.0 %**
Minimum Total CAR plus Capital Conservation Buffer	10.0 %	10.0 %	10.0 %	10.625 %	11.25 %	11.875 %	**12.5 %**
Capital instruments that no longer qualify as AT 1 capital or Tier 2 capital	Phased out over 10 year horizon beginning 1 July 2014						

Source: BoM's Guideline on Scope of Application of Basel III & Eligible Capital

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