20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Basel III sets minimum CET1 capital at 4.5% of Risk Weighted Assets globally.**
   CET1 is the strongest, most loss-absorbing form of bank capital under Basel III.

2. **Global Basel III minimum Tier 1 capital is 6% of Risk Weighted Assets.**
   Tier 1 capital combines CET1 and Additional Tier 1 and must equal at least 6% of RWA.

3. **Global Basel III minimum Total Capital (CRAR) is 8% of Risk Weighted Assets.**
   Total Capital is the sum of Tier 1 and Tier 2 capital as a percentage of RWA.

4. **RBI requires Indian banks to maintain Total CRAR of 9% of RWA, stricter than the global 8% floor.**
   India runs a more conservative capital standard than the global Basel III minimum.

5. **The Capital Conservation Buffer (CCB) is 2.5% of RWA and must be held as CET1.**
   The CCB is an extra cushion above minimum capital that restricts payouts if breached.

6 **The Countercyclical Capital Buffer (CCyB) ranges from 0% to 2.5% of RWA.**

Regulators switch on the CCyB during credit booms to make banks build extra capital.

7 **Basel III's Leverage Ratio equals Tier 1 Capital divided by Total Exposure, minimum 3%.**

The Leverage Ratio caps total borrowing relative to core capital regardless of risk weights.

8 **The Leverage Ratio is a non-risk-based backstop, unlike the risk-weighted CRAR.**

It ignores risk weights entirely, so banks cannot understate exposure via internal models.

9 **The Liquidity Coverage Ratio (LCR) requires holding HQLA to survive 30 days of stress, minimum 100%.**

LCR ensures a bank can meet net cash outflows for 30 days of severe market stress.

10 **The Net Stable Funding Ratio (NSFR) ensures stable funding over a one-year horizon, minimum 100%.**

NSFR discourages funding long-term assets with unstable short-term liabilities.

11 **The Basel III output floor requires internal-model RWA to be at least 72.5% of standardised RWA.**

The output floor limits how far internal models can reduce capital requirements.

12 **Systemically important banks (G-SIBs and D-SIBs) carry an additional CET1 surcharge of 1% to 3.5%.**
Larger, more interconnected banks carry higher surcharges since their failure risks the system.

13 **CET1 is the highest-quality bank capital, mainly equity share capital and retained earnings.**
CET1 is fully and immediately loss-absorbing with no fixed servicing obligation.

14 **Additional Tier 1 (AT1) capital consists of perpetual instruments with no fixed maturity.**
AT1 instruments can have coupon payments skipped at the bank's discretion during stress.

15 **CET1 plus AT1 together form Tier 1 capital, the going-concern capital of a bank.**
Tier 1 capital absorbs losses while the bank continues operating as a going concern.

16 **Tier 2 capital, mainly subordinated debt, absorbs losses at liquidation as gone-concern capital.**
Tier 2 is lower quality than Tier 1 and mainly protects creditors on wind-up.

17 **Basel III was introduced by the Basel Committee on Banking Supervision after the 2008 crisis.**
The 2008 crisis exposed weak capital, high leverage and thin liquidity across global banks.

18 **Basel III strengthened capital treatment for credit, counterparty, market and operational risk.**
This closed gaps in risk coverage that earlier Basel norms had underestimated.

19 **Typical HQLA under LCR include cash, central bank balances, and government securities.**
These highly liquid, low-risk assets can be readily sold to meet outflows in a crisis.

20 **For a bank with RWA of Rs 1,000 crore, India's 9% CRAR requires Rs 90 crore of total capital.**
This example shows how percentage capital ratios translate into rupee capital requirements.