



BANKING AGENCY OF REPUBLIKA SRPSKA

STRATEGY
for introducing the
B A S E L III

Banja Luka, February 2016

I. Introduction

This document represents the amendments to the “Strategy for introducing the International Convergence for Capital Measurement and Capital Standards” – Basel II, adopted by the Banking Agency of Republika Srpska Management Board in February 2009 and in February 2013.

After the onset of global financial crisis there was a need for the improvement of generally accepted standards and regulation at the international level. In this regard, the Basel Committee on Banking Supervision (hereinafter: *BCBS*) published the first set of documents (so-called Basel 2.5) in July 2009 - *Enhancements to the Basel II framework, Revisions to the Basel II market risk framework and Guidelines for computing capital for incremental risk in the trading book*, which primarily relates to the amendments in the area of market risk. However, significant changes were made in December 2010 when the *BCBS* published a new set of documents (Basel III) - *A global regulatory framework for more resilient banks and banking system and International framework for liquidity risk measurement, standards and monitoring*. In June 2011, a revised document related to the Basel III was published - *A global regulatory framework for more resilient banks and banking systems – revised version*, and the most significant changes relate to the introduction of new capital standards (improvement of capital quality, strengthening of capital requirements, introduction of capital buffers and financial leverage), improvement in the area of corporate governance in banks, and the introduction of new minimum standards for liquidity risk management and minimum liquidity indicators (*LCR, NSFR*).

Given that the objective of Bosnia and Herzegovina is the application for membership in the European Union, the Agency’s basic commitment is that, in the period of transition of regulatory framework amendments, it fully directs its activities towards the harmonization with the EU regulatory framework.

Basel III standards had been incorporated into the EU regulatory framework by adopting the Directive on capital requirements – *CRD* and Capital Requirements Regulation – *CRR*, whose goal was a maximum harmonization of regulations at the European level, where the above mentioned Directive and Regulation were published in June 2013 and are being applied as of 1 January 2014. For the purpose of more efficient application, a large number of implementing technical standards, guidelines, instructions and similar have been adopted based on the *CRD* and *CRR*.

This Strategy foresees a prudent and gradual transition to the new regulatory framework in Republika Srpska, in order to ensure that:

- banks gradually develop their capacities and abilities for the Basel III implementation,
- the Banking Agency of Republika Srpska (hereinafter: Agency) develops its supervisory capacities for drafting and implementing a new regulatory framework, in cooperation and coordination with all relevant domestic and foreign institutions.

The manner in which this strategy shall be implemented will be defined by the Agency's Work Plan and the Agency's Activity Plan for the implementation of the *FSAP* Mission recommendations, which shall be an integral part of this Strategy.

II. Work performed on the Basel III implementation in the previous period

In the previous period, the Agency prepared the drafts on following by-laws relevant for the Pillar 1 and Pillar 2:

- Decision on calculating capital, which stipulates:
 - capital items, i.e. the manner of calculating regulatory capital,
 - capital buffer requirements,
 - financial leverage requirements,
 - calculating capital requirements for credit risk according to the standardized approach,
 - calculating capital requirements for operational risk according to the basic indicator approach and standardized approach,
 - calculating capital requirements for market risk according to the standardized approach,
- Decision on risk management in banks, which stipulates minimum standards for management of risks to which a bank is exposed or might be exposed in its operations,
- Decision on IRRBB (interest rate risk in the banking book) management, which stipulates minimum standards for measurement and management of interest rate risk in the banking book,
- Decision on large exposures, which stipulates minimum requirements for the large exposure management and limitations related to the exposure concentration,
- Decision on Internal Capital Adequacy Process in banks, which defines the procedures in the Internal Capital Adequacy Process (hereinafter: *ICAAP*), and the manner and deadlines for reporting to the Agency.

Drafts of the mentioned decisions are published on the Agency's web page, and a public discussion is underway, which is organized in cooperation with the Banks Association of BiH.

III. Further steps in Basel III implementation

The continuation of activities related to the Basel III implementation refers to the following:

- drafting of by-laws related to the new reporting system (*COREP/FINREP*),
- drafting of other by-laws relevant for the Pillar 1 and Pillar 2:
 - Decision on liquidity risk management,
 - other by-laws (e.g. guidelines/instructions for the application of the Decision on calculating capital, Decision on *IRRBB* management, Decision on *ICAAP*, guidelines/instructions for stress testing implementation, additional reporting requirements and similar),
 - conducting the Quantitative Impact Study (QIS), that is the impact of application of a new regulatory framework in cooperation with all banks in RS (related to the calculating capital, total amount of risk exposure, liquidity indicators, limitations in terms of exposure concentration and other),
 - drafting of other by-laws relevant for the Pillar 3, which shall define a minimum volume of information which banks are obliged to publish,
 - drafting final versions of by-laws referred to in part II. and III. of this strategy (after conducting the procedure of public discussion, QIS, adoption of the new RS Banking Law, and taking into account new changes to the EU regulatory framework),

- drafting of other new and/or amending of applicable by-laws according to the new RS Banking Law and/or in accordance with the Agency's Activity Plan for the implementation of the *FSAP* Mission recommendations,
- adoption and application of all by-laws by the end of 2018.

On its web page, the Agency shall continuously publish all by-law drafts.

IV. Prerequisites for efficient Basel III implementation

For the purpose of achieving efficient Basel III implementation, it is necessary to:

- maintain joint activities and operations of entity banking agencies, i.e. continue with jointly activities on drafting and aligning of by-laws, and implementation of QIS,
- built up capacities of the Agency for the application of a new regulatory framework by continuous and planned education,
- plan additional investments in the Agency's information system for the purpose of application of a new regulatory framework and establishment of a new reporting system based on the *COREP/FINREP*. Such investments shall be envisaged by means of the Agency's annual financial plans,
- continue cooperation with the Banks Association of BiH in a sense of active inclusion of banks in the course of entire implementation procedure,
- strengthen coordination with other regulatory bodies from BiH and abroad,
- continuously monitor changes in the international regulatory framework and the EU regulatory framework, and if necessary make changes to the drafts.

Bearing in mind the significance and complexity of the entire process of Basel III implementation, this strategy shall be changed or amended as necessary, in accordance with new circumstances.