



## ALL INDIA BANK OFFICERS' CONFEDERATION

(Registered under the Trade Unions Act 1926, Registration No: 3427/Delhi)

State Bank Buildings, St. Mark's Road, Bangalore – 560 001

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**CIRCULAR NO.5**

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**TO ALL AFFILIATES /MEMBERS:**

### **RELEVANCY OF BASEL COMMISSION**

### **RECAPITALIZATION OF PUBLIC SECTOR BANKS**

### **FUTURE OF THE BASEL NORMS**

The world over, the financial institutions are seriously debating the relevancy of the Basel Commission after the era of globalization of over two decades. The year 2008 saw the collapse of strong financial institutions in the United States followed by several Western countries who were policing the third world countries to keep themselves abreast of the Basel Norms and adhered to the same while being arrogated as far as the implementation of the same is concerned in their own countries.

**2.** The extinction of the Lehman Brothers one of the biggest financial institutions in US which failed to maintain sufficient liquidity as well as capital and could not meet their commitments to the market, filed bankruptcy petition before the US Federal Court thus creating a history in the economic condition of the United States. It was one of the biggest Financial Institutions to collapse in the modern history of the world. Thereafter we have witnessed similar debacle of the financial institutions which despite the boldface kept by the rulers of the United States of America.

**3.** The Governments and the Financial Institutions world over are debating about the need of maintaining the capital as suggested by Basel Commission. The Basel Commission itself in their recent meeting are perturbed over these developments and taking a soft stand in order to appease the Western countries. Thanks to the Reserve Bank of India and its most conservative approach as regulator par excellence in the entire world, has been able to attract the attention of the financial institutions all over the world, which not only saved the Indian Banking system but also sustained robust growth despite the ugly impact of the US economic recession elsewhere in the world.

**4.** The third phase of Basel Norms which expects to have further addition of capital to the extent of another 2 to 2.5% fully owned by the Banks is yet another challenge to the financial institutions in the world. However, the Reserve Bank of India has taken a bold step of insisting to maintain the third phase of Basel Norms of capital adequacy without any dilution in the process. The third decade of the globalization will be a testing time for the financial sector all over the world to decide whether the Basel is relevant to the era of so-called globalization and how the respective regulators will be able to protect the interest of the depositors and also the intrinsic strength of the economy. The Banks are the trustees of the resources of the community. The Government has a responsibility to protect the interest of the depositors through their honouring of the commitment that they have towards the ownership of the Public Sector Banks.

**5.** The direct infusion of Capital would enhance the image of the Banking Industry in the country. The owned capital always provides a better comfort than the one raised through the outside borrowings and it is for the Government to enter into the picture and provide the

necessary capital to all the Public Sector Banks owned by them instead of insisting for the public issue and dilution of the equity held by them.

**6.** The Moody's have observed while rating the banks in India that the Reserve Bank is very stringent as far as the maintenance of the Basel Norms is concerned in comparison with other countries. Hence, they had downgraded some of the ratings and have now found that there is a need to review their approach as well.

**7.** There is a need to revisit some of the methodology of recapitalization of the Banks by the Government. The best method is to back their equity through sovereign guarantee since the people of the country have tremendous faith in the solvency of the Government and there is no need to compel the banks to seek financial support from the borrowings to meet the capital adequacy. A time has come to review the Basel Norms – the essence of the Basel Norms is that there has to be capital strength for the Banks in order to meet the contingency of liquidity and emergency and it is immaterial whether there is actual funds or not when it is owned by the Government of India. Hence, we need to campaign throughout the country for re-looking into some of these finer aspects so that the Banking system in India continues its robust growth during the next decade as well.

With greetings,



**(G.D.NADAF)**  
**GENERAL SECRETARY**

