

PREPARING FOR BASEL IV

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The second volume of the Bank Capital Adequacy Handbook was published in 2019, with the following caption on its cover: Prepare for Basel IV! The first volume was published eight years ago, in 2010. The second volume contains the amendments to the Basel regulation, or more precisely, to the effective European and national capital regulation, which have been adopted and entered into force since then, excluding any unchanged elements. Even the authors themselves mention on the back cover that this supplemented handbook is principally handy for those who are familiar with the previous regulation. Returning to the caption: the Basel IV regulation had not been implemented in the European regulation at the time of the handbook's publication yet. The book regards these changes as expected, and mainly includes the provisions of CRD IV – CRR effective as of 1 January 2014.

The CRD IV – CRR Directive and Regulation currently in force is an 800-page-long quintessential legislative text with some relevant additional regulation. The Single Rulebook, which is available for everyone on the website of the European Banking Authority, includes this bulky regulatory framework in a coherent form. Regarding its genre, it is a rulebook. Instead of facilitating understanding, it helps the readers become familiar with all the effective legislation by clearly displaying the relevant supplementary regulatory materials in the case of each section of the CRD IV – CRR². It provides excellent navigation for those who are already familiar with the regulation.

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² The aforementioned supplementary materials may be regulatory technical standards, implementing technical standards, delegated acts, guidelines or questions & answers about the interpretation of the legislation, published on the website of the EBA.

In this complex and extensive regulatory environment, the Bank Capital Adequacy Handbook is gap-filling literature: it introduces the reader to the mysteries of capital requirements regulation in a structured form, accurately, but not full of legal references, in a critical and expert manner and through illustrative calculations in several places.

The second volume of the Bank Capital Adequacy Handbook covers the entire CRD IV – CRR regulation, explicitly focusing on the details of the changes to capital regulation. In the light of this, it only touches on the liquidity indicators introduced as novelties by Basel III. Within capital regulation, it focuses on capital requirement calculation rather than on qualitative standards. This book does not deal in depth with the regulation of solvency capital requirement, which was considerably revised by Basel III, however, it recommends relevant literature to the reader.

At the same time, it describes the changes in capital requirement calculation in the cases of market risk, credit risk, operational risk, partner risk and the CVA capital requirement in detail. In several places, it illustrates the changes with examples or analyses their effect on the capital requirement, e.g. in the case of the IRB capital function, it presents the change in the capital requirement per unit of exposure depending on PD, in the case of a higher correlation coefficient to be applied for organisation in the financial sector.

The book provides a proper foundation on the basis of which the risk managers of banks, as well as banking and external experts dealing with the topic can have a better understanding of the effective regulation and take the CRD IV – CRR regulation into their hands with more confidence. The book requires basic knowledge about banking industry.

The last chapter of the handbook deals with the expected changes to capital regulation based on the Basel recommendations. The CRD V – CRR II Directive and Regulation were published in the official journal of the EU in July 2019, after the closure of the manuscript. The legislative package is to enter into force as of 2021, affecting the topics covered by the handbook in detail as well. Hopefully, after the entry into force of the new regulation, the authors will be able to publish a similarly useful third volume or a new book of uniform structure.