ABSTRACT

Capital Adequacy of Commercial Banks

The purpose of the thesis is to analyse particular capital adequacy issues. The thesis is composed of three chapters, each dealing with particular aspects of capital adequacy. The introductory Chapter One clarifies the meaning of capital adequacy.

The thesis is based on two main aims. Chapter Two examines Basel Committee of Banking Supervision materials and following relevant EU and Czech legislation. The methodology used in this chapter vests in comparative analysis and legal analysis of current Czech national legislation. The first aim is to tackle the legal issues of implementation and effective enforcement of current capital adequacy rules, with concentration on the key problem of inconsistency of implementation among countries.

The Chapter Three describes the reasons for adoption of new regulatory rules of capital adequacy in connection with recent turbulent changes in financial markets. To make a conclusion whether Basel III is a sufficient reaction is the second main aim. It focuses on analyse of the Basel III rules as a set with some practical notes on ongoing implementation in the world or in the Czech Republic in particular.

The Basel Committee rules need to be implemented carefully. Whether by partial or incomplete implementation of Basel rules or by national discretions and options under the EU CRD directives, the global financial system can be undermined by all differences among countries. This is not a call for obligatory nature of Basel Committee rules – that solution is neither possible nor necessary. Rather, it is a summary that national regulators and supervisors must work in coordination to reach one common goal.

The second conclusion concerns Basel III rules only. Although no absolute and profound conclusions can be made without actual functioning of these rules, the preliminary outcome of the appropriateness of them is plain enough and evident. Though banks have done whatever to cut down the strictness of criteria under Basel III by discussions, consultations or financial studies (such endeavour is evidently less obvious in Czech Republic), the necessity of making much

stricter rules for own funds, especially Tier 1 capital, is duly justified. The conclusion I made in the Chapter Three is that new set of rules is appropriate and eligible to reach their goal. However, much will depend on how the supervisors will bring these rules to life.