This chapter studies capital adequacy regulation, which prescribes that banks can only take certain levels of risk that are supported by adequate levels of capital. In this way, capital adequacy rules provide a form of assurance that banks with adequate levels of capital are likely able to withstand losses that may result from their risk-taking. The Basel Committee developed its first set of capital adequacy standards in the Basel I Capital Accord of 1988. It was subsequently overhauled into the Basel II Capital Accord in 2003. After the global financial crisis of 2007–9, the Basel II Accord’s shortcomings were extensively discussed and the Basel Committee introduced a package of reforms in order to plug the gaps in Basel II. The Basel III package is the most extensive suite of micro-prudential regulation reforms seen to date, as they deal with capital adequacy and a range of other micro-prudential standards.
8. Micro-prudential regulation I: Capital adequacy

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