

Overview of Banking Regulations

Overview of Banking Regulations – Study Notes

1. Why Banking Is Regulated

Objective	Description
Financial Stability	Prevent systemic crises that can spread through the economy.
Consumer Protection	Safeguard depositors and borrowers from unfair practices.
Market Integrity	Ensure fair competition, transparency, and prevent fraud.
Monetary Policy Effectiveness	Enable central banks to control money supply and interest rates.
Compliance with International Standards	Align domestic rules with global best practice (e.g., Basel accords).

2. Core Regulatory Bodies (U.S. Example)

Institution	Primary Role
Federal Reserve (Fed)	Sets monetary policy, supervises bank holding companies, conducts stress tests.
Office of the Comptroller of the Currency (OCC)	Charters and regulates national banks.
Federal Deposit Insurance Corporation (FDIC)	Insures deposits up to \$250,000, resolves failed banks.
Consumer Financial Protection Bureau (CFPB)	Enforces consumer fairness rules (e.g., Truth in Lending).
National Credit Union Administration (NCUA)	Regulates and insures credit unions.

(Other jurisdictions have analogous agencies: ECB/European Central Bank, FCA/UK, APRA/Australia, etc.)

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3. Major Regulatory Frameworks

Framework	Scope	Key Requirements
Basel III (global)	Capital adequacy, liquidity, leverage	• Minimum Common Equity Tier 1 (CET1) = 4.5% of risk-weighted assets (RWAs) • Liquidity Coverage Ratio (LCR) 100% • Net Stable Funding Ratio (NSFR) 100% • Creation of the Financial Stability Oversight Council (FSOC)
Dodd-Frank Act (U.S.)	Systemic risk, consumer protection	• Volcker Rule – limits proprietary trading • Enhanced reporting (Form 10-K, FR Y-14)
European Banking Union	EU-wide supervision & resolution	• Single Supervisory Mechanism (SSM) under ECB • Single Resolution Mechanism (SRM) for failing banks
Anti-Money Laundering (AML) / Counter-Terrorist Financing (CTF)	Detect & deter illicit flows	• Customer Due Diligence (CDD) • Suspicious Activity Reporting (SAR) • Beneficial-owner registries
Consumer Protection Laws	Fair lending, disclosure	• Truth-in-Lending Act (TILA) • Fair Credit Reporting Act (FCRA) • Equal Credit Opportunity Act (ECOA)

4. Key Regulatory Concepts

1. Risk-Weighted Assets (RWAs)

- Assets are assigned risk weights (e.g., 0% for cash, 100% for corporate loans).
- Capital ratios are calculated as capital / RWAs.

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2. Capital Adequacy

- **Tier 1 Capital** – core equity (common stock, retained earnings).
- **Tier 2 Capital** – supplementary (subordinated debt, loan loss reserves).

3. Liquidity Ratios

- **LCR** – high-quality liquid assets covering net cash outflows over 30 days.
- **NSFR** – stable funding over