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Chapter 1 : 5 Important Principles Followed by the Banks for Lending Money

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Chapter 2 : Principles of Bank Regulation : Michael Malloy :

Comprehensive, yet intelligible treatment of the basic rules, principles, statutes, and issues governing the law of bank regulation. Examines the rapid pace of development in depository institution regulation, and how federal statutes governing banking have been subject to constant amendment in recent years.

Objectives[edit] The objectives of bank regulation, and the emphasis, vary between jurisdictions. The most common objectives are: Banking regulations vary widely between jurisdictions. Licensing and supervision[edit] Bank regulation is a complex process and generally consists of two components: The first component, licensing, sets certain requirements for starting a new bank. Licensing provides the licence holders the right to own and to operate a bank. Supervision ensures that the functioning of the bank complies with the regulatory guidelines and monitors for possible deviations from regulatory standards. Often, these requirements are closely tied to the level of risk exposure for a certain sector of the bank. The most important minimum requirement in banking regulation is maintaining minimum capital ratios. Instruments and requirements[edit] Main article: Capital requirement The capital requirement sets a framework on how banks must handle their capital in relation to their assets. In , the Committee decided to introduce a capital measurement system commonly referred to as the Basel Capital Accords. The latest capital adequacy framework is commonly known as Basel III. Reserve requirement The reserve requirement sets the minimum reserves each bank must hold to demand deposits and banknotes. This type of regulation has lost the role it once had, as the emphasis has moved toward capital adequacy, and in many countries there is no minimum reserve ratio. The purpose of minimum reserve ratios is liquidity rather than safety. Required reserves have at times been gold, central bank banknotes or deposits, and foreign currency. Corporate governance[edit] Corporate governance requirements are intended to encourage the bank to be well managed, and is an indirect way of achieving other objectives. As many banks are relatively large, and with many divisions, it is important for management to maintain a close watch on all operations. Investors and clients will often hold higher management accountable for missteps, as these individuals are expected to be aware of all activities of the institution. Some of these requirements may include: Also the officers for those offices may need to be approved persons, or from an approved class of persons to have a constitution or articles of association that is approved, or contains or does not contain particular clauses, e. Particularly for banks that trade on the public market, in the US for example the Securities and Exchange Commission SEC requires management to prepare annual financial statements according to a financial reporting standard , have them audited, and to register or publish them. Often, these banks are even required to prepare more frequent financial disclosures, such as Quarterly Disclosure Statements. In addition to preparing these statements, the SEC also stipulates that directors of the bank must attest to the accuracy of such financial disclosures. The internal control report must include: Also, banks may be required to maintain a minimum credit rating. These ratings are designed to provide color for prospective clients or investors regarding the relative risk that one assumes when engaging in business with the bank. The ratings reflect the tendencies of the bank to take on high risk endeavors, in addition to the likelihood of succeeding in such deals or initiatives. These agencies hold the most influence over how banks and all public companies are viewed by those engaged in the public market. In recent years, following the Great Recession , many economists have argued that these agencies face a serious conflict of interest in their core business model. The question then is, to whom is the agency providing its service: Ironically, European governments have abdicated most of their regulatory authority in favor of a non-European, highly deregulated , private cartel. As a result, distinct regulatory systems developed in the United States for regulating banks, on the one hand, and securities firms on the other. The objective of federal agencies is to avoid situations in which the government must decide whether to support a struggling bank or to let it fail. The issue, as many argue, is that providing aid to crippled banks creates a situation of moral hazard. The general premise is that while the government may have prevented a financial catastrophe for the time being, they have reinforced confidence for high risk taking and provided an invisible safety net. This can lead to a vicious cycle, wherein banks take risks, fail, receive a bailout, and then continue to take risks once again.

Chapter 3 : Download [PDF] Principles Of Bank Regulation â€“ Fodreport eBook

Global Bank Regulation: Principles and Policies covers the global regulation of financial institutions. It integrates theories, history, and policy debates, thereby providing a strategic approach to understanding global policy principles and banking.

Monetary Policy and Bank Regulation Discuss the relationship between bank regulation and monetary policy Explain bank supervision Explain how deposit insurance and lender of last resort are two strategies to protect against bank runs A safe and stable national financial system is a critical concern of the Federal Reserve. This esoteric task is usually behind the scenes, but came into view during the â€" financial crisis, when for a brief period of time, critical parts of the financial system failed and firms became unable to obtain financing for ordinary parts of their business. Imagine if suddenly you were unable to access the money in your bank accounts because your checks were not accepted for payment and your debit cards were declined. Bank regulation is intended to maintain the solvency of banks by avoiding excessive risk. Regulation falls into a number of categories, including reserve requirements, capital requirements, and restrictions on the types of investments banks may make. In Money and Banking , we learned that banks are required to hold a minimum percentage of their deposits on hand as reserves. Another part of bank regulation is restrictions on the types of investments banks are allowed to make. Banks are allowed to make loans to businesses, individuals, and other banks. They are allowed to purchase U. Treasury securities but, to protect depositors, they are not permitted to invest in the stock market or other assets that are perceived as too risky. A bank must have positive net worth; otherwise it is insolvent or bankrupt, meaning it would not have enough assets to pay back its liabilities. Regulation requires that banks maintain a minimum net worth, usually expressed as a percent of their assets, to protect their depositors and other creditors. Department of the Treasury, the Office of the Comptroller of the Currency has a national staff of bank examiners who conduct on-site reviews of the 1, or so of the largest national banks. The bank examiners also review any foreign banks that have branches in the United States. The Office of the Comptroller of the Currency also monitors and regulates about savings and loan institutions. There are over 6, credit unions in the U. The Federal Reserve also has some responsibility for supervising financial institutions. When the supervision of banks and bank-like institutions such as savings and loans and credit unions works well, most banks will remain financially healthy most of the time. If the bank supervisors find that a bank has low or negative net worth, or is making too high a proportion of risky loans, they can require that the bank change its behaviorâ€"or, in extreme cases, even force the bank to be closed or sold to a financially healthy bank. Bank supervision can run into both practical and political questions. These issues can become even more complex when a bank makes loans to banks or firms in other countries, or arranges financial deals that are much more complex than a basic loan. The political question arises because the decision by a bank supervisor to require a bank to close or to change its financial investments is often controversial, and the bank supervisor often comes under political pressure from the owners of the bank and the local politicians to keep quiet and back off. A similar unwillingness to confront problems with struggling banks is visible across the rest of the world, in East Asia, Latin America, Eastern Europe, Russia, and elsewhere. In the United States, laws were passed in the s requiring that bank supervisors make their findings open and public, and that they act as soon as a problem is identified. However, as many U. Bank Runs Back in the nineteenth century and during the first few decades of the twentieth century around and during the Great Depression , putting your money in a bank could be nerve-wracking. In this situation, whoever withdrew their deposits first received all of their money, and those who did not rush to the bank quickly enough, lost their money. Depositors racing to the bank to withdraw their deposits, as shown in Figure 1 is called a bank run. A Run on the Bank. Bank runs during the Great Depression only served to worsen the economic situation. National Archives and Records Administration The risk of bank runs created instability in the banking system. Even a rumor that a bank might experience negative net worth could trigger a bank run and, in a bank run, even healthy banks could be destroyed. When the bank had no cash remaining, it only intensified the fears of remaining depositors that they could lose their money. Moreover, a bank run at one bank often triggered a chain reaction of runs on other banks. In the late nineteenth and early twentieth century, bank runs were typically not the original cause of a recessionâ€"but they could make a recession much worse. Deposit Insurance To protect against bank runs, Congress has put two strategies into place: Deposit insurance is an insurance system that makes sure depositors in a bank do not lose their money, even if the bank goes bankrupt. About 70 countries around the world, including all of the major economies, have deposit insurance programs. Banks pay an insurance premium to the FDIC. Bank examiners from the FDIC evaluate the balance sheets of banks, looking at the value of assets and liabilities, to determine the level of riskiness. The FDIC provides deposit insurance for about 6, banks as of the end of Since the United States enacted deposit insurance in the s, no one has lost any of their insured deposits. Bank runs no longer happen at insured banks. Lender of Last Resort The problem with bank runs is not that insolvent banks will fail; they are, after all, bankrupt and need to be shut down. The problem is that bank runs can cause solvent banks to fail and spread to the rest of the financial system. To prevent this, the Fed stands ready to lend to banks and other financial institutions when they cannot obtain funds from anywhere else. This is known as the lender of last resort role. For banks, the central bank acting as a lender of last resort helps to reinforce the effect of deposit insurance and to reassure bank customers that they will not lose their money. The lender of last resort task can come up in other financial crises, as well. During the panic of the stock market crash in , when the value of U. Key Concepts and Summary A bank run occurs when there are rumors possibly true, possibly false that a bank is at financial risk of having negative net worth. As a result, depositors rush to the bank to withdraw their money and put it someplace safer. Even false rumors, if they cause a bank run, can force a healthy bank to lose its deposits and be forced to close. Deposit insurance guarantees bank depositors that, even if the bank has negative net worth, their deposits will be protected. Bank supervision involves inspecting the balance sheets of banks to make sure that they have positive net worth and that their assets are not too risky. When a central bank acts as a lender of last resort, it makes short-term loans available in situations of severe financial panic or stress. The failure of a single bank can be treated like any other business failure. Yet if many banks fail, it can reduce aggregate demand in a way that can bring on or deepen a recession. The combination of deposit insurance, bank supervision, and lender of last resort policies help to prevent weaknesses in the banking system from causing recessions. Self-Check Questions Given the danger of bank runs, why do banks not keep the majority of deposits on hand to meet the demands of depositors? How is bank regulation linked to the conduct of monetary policy? What is a bank run? In a program of deposit insurance as it is operated in the United States, what is being insured and who pays the insurance premiums? In government programs of bank supervision, what is being supervised? What is the lender of last resort? Name and briefly describe the responsibilities of each of the following agencies: How does the concept of moral hazard apply to deposit insurance and other bank regulations? Department of the Treasury. National Credit Union Administration. Glossary bank run when depositors race to the bank to withdraw their deposits for fear that otherwise they would be lost deposit insurance an insurance system that makes sure depositors in a bank do not lose their money, even if the bank goes bankrupt lender of last resort an institution that provides short-term emergency loans in conditions of financial crisis Solutions Answers to Self-Check Questions Banks make their money from issuing loans and charging interest. The fear and uncertainty created by the suggestion that a bank might fail can lead depositors to withdraw their money. If many depositors do this at the same time, the bank may not be able to meet their demands and will, indeed, fail.

Chapter 4 : Principles of Bank Regulation by Michael P. Malloy

Examines depository institution regulation, and how federal statutes governing banking have been subject to constant amendment in recent years, especially since the meltdown of the mortgage market and the worldwide crisis that followed.

Objectives of bank regulation[edit] The objectives of bank regulation, and the emphasis, vary between jurisdictions. The most common objectives are: Prudentialâ€”to reduce the level of risk to which bank creditors are exposed i. This section of the article describes general principles of bank regulation throughout the world. Minimum requirements[edit] Requirements are imposed on banks in order to promote the objectives of the regulator. Often, these requirements are closely tied to the level of risk exposure for a certain sector of the bank. The most important minimum requirement in banking regulation is maintaining minimum capital ratios. Market discipline[edit] The regulator requires banks to publicly disclose financial and other information, and depositors and other creditors are able to use this information to assess the level of risk and to make investment decisions. Instruments and requirements of bank regulation[edit] Capital requirement[edit] The capital requirement sets a framework on how banks must handle their capital in relation to their assets. In , the Committee decided to introduce a capital measurement system commonly referred to as the Basel Capital Accords. The latest capital adequacy framework is commonly known as Basel III. Reserve requirement[edit] The reserve requirement sets the minimum reserves each bank must hold to demand deposits and banknotes. This type of regulation has lost the role it once had, as the emphasis has moved toward capital adequacy, and in many countries there is no minimum reserve ratio. The purpose of minimum reserve ratios is liquidity rather than safety. Required reserves have at times been gold coin, central bank banknotes or deposits, and foreign currency. Corporate governance[edit] Corporate governance requirements are intended to encourage the bank to be well managed, and is an indirect way of achieving other objectives. As many banks are relatively large, with many divisions, it is important for management to maintain a close watch on all operations. Investors and clients will often hold higher management accountable for missteps, as these individuals are expected to be aware of all activities of the institution. Some of these requirements may include: To be a body corporate i. To have a minimum number of directors To have an organisational structure that includes various offices and officers, e. Also the officers for those offices may need to be approved persons, or from an approved class of persons. To have a constitution or articles of association that is approved, or contains or does not contain particular clauses, e. Particularly for banks that trade on the public market, the Securities and Exchange Commission SEC requires management to prepare annual financial statements according to a financial reporting standard, have them audited, and to register or publish them. Often, these banks are even required to prepare more frequent financial disclosures, such as Quarterly Disclosure Statements. In addition to preparing these statements, the SEC also stipulates that directors of the bank must attest to the accuracy of such financial disclosures. The internal control report must include: Also, banks may be required to maintain a minimum credit rating. These ratings are designed to provide color for prospective clients or investors regarding the relative risk that one assumes when engaging in business with the bank. The ratings reflect the tendencies of the bank to take on high risk endeavors, in addition to the likelihood of succeeding in such deals or initiatives. These agencies hold the most influence over how banks and all public companies are viewed by those engaged in the public market. In recent years, following the Great Recession, many economists have argued that these agencies face a serious conflict of interest in their core business model. The question then is, to whom is the agency providing its service: Ironically, European governments have abdicated most of their regulatory authority in favor of a non-European, highly deregulated] private cartel. Activity and affiliation restrictions[edit] In , during the first days of President Franklin D. As a result, distinct regulatory systems developed in the United States for regulating banks, on the one hand, and securities firms on the other. The objective of federal agencies is to avoid situations in which the government must decide whether to support a struggling bank or to let it fail. The issue, as many argue, is that providing aid to crippled banks creates a situation of moral hazard. The general premise is that while the government may have prevented a financial catastrophe for the time being, they have reinforced confidence for high risk taking and provided an invisible safety net. This can lead to a vicious cycle, wherein banks take risks, fail, receive a bailout and then continue to take risks once again.

Chapter 5 : Principles of Financial Regulation - Oxford Scholarship

Additional discussion covers the regulated environment of banking, entry rules, branching, control transactions, transactional rules, holding company activities, securities regulation, resolution of institution failures, international banking, and more.

Banks follow the following principles of lending: Liquidity is an important principle of bank lending. Bank lend for short periods only because they lend public money which can be withdrawn at any time by depositors. They, therefore, advance loans on the security of such assets which are easily marketable and convertible into cash at a short notice. It is essential because if the bank needs cash to meet the urgent requirements of its customers, it should be in a position to sell some of the securities at a very short notice without disturbing their market prices much. There are certain securities such as central, state and local government bonds which are easily saleable without affecting their market prices. But the shares and debentures of ordinary firms are not easily marketable without bringing down their market prices. So the banks should make investments in government securities and shares and debentures of reputed industrial houses. The safety of funds lent is another principle of lending. Safety means that the borrower should be able to repay the loan and interest in time at regular intervals without default. The repayment of the loan depends upon the nature of security, the character of the borrower, his capacity to repay and his financial standing. Like other investments, bank investments involve risk. But the degree of risk varies with the type of security. Securities of the central government are safer than those of the state governments and local bodies. And the securities of state government and local bodies are safer than those of the industrial concerns. This is because the resources of the central government are much higher than the state and local governments and of the latter higher than the industrial concerns. In fact, the share and debentures of industrial concerns are tied to their earnings which may fluctuate with the business activity in the country. The bank should also take into consideration the debt repaying ability of the governments while investing in their securities. Political stability and peace and security are the prerequisites for this. It is very safe to invest in the securities of a government having large tax revenue and high borrowing capacity. The same is the case with the securities of a rich municipality or local body and state government of a prosperous region. So in making investments the bank should choose securities, shares and debentures of such governments, local bodies and industrial concerns which satisfy the principle of safety. Even then, it has to take into consideration the creditworthiness of the borrower which is governed by his character, capacity to repay, and his financial standing. Above all, the safety of bank funds depends upon the technical feasibility and economic viability of the project for which the loan is advanced. In choosing its investment portfolio, a commercial bank should follow the principle of diversity. It should not invest its surplus funds in a particular type of security but in different types of securities. It should choose the shares and debentures of different types of industries situated in different regions of the country. The same principle should be followed in the case of state governments and local bodies. Diversification aims at minimising risk of the investment portfolio of a bank. A bank should follow the maxim: The bank cannot afford any loss on the value of its securities. It should, therefore, invest it funds in the shares of reputed companies where the possibility of decline in their prices is remote. Government bonds and debentures of companies carry fixed rates of interest. Their value changes with changes in the market rate of interest. But the bank is forced to liquidate a portion of them to meet its requirements of cash in cash of financial crisis. Otherwise, they run to their full term of 10 years or more and changes in the market rate of interest do not affect them much. Thus bank investments in debentures and bonds are more stable than in the shares of companies. This is the cardinal principle for making investment by a bank. It must earn sufficient profits. It should, therefore, invest in such securities which was sure a fair and stable return on the funds invested. The earning capacity of securities and shares depends upon the interest rate and the dividend rate and the tax benefits they carry. It is largely the government securities of the centre, state and local bodies that largely carry the exemption of their interest from taxes. The bank should invest more in such securities rather than in the shares of new companies which also carry tax exemption. This is because shares of new companies are not safe investments.

Chapter 6 : Five principles of financial regulation for the post-crisis world -

Examines depository institution regulation, and how federal statutes governing banking have been subject to constant amendment in recent years, especially since the meltdown of the mortgage market and the worldwide crisis that followed. Discusses the growing overlap in competition among depository.

Chapter 7 : Bank regulation - Wikipedia

Principles of bank regulation. [Michael P Malloy] -- Examines depository institution regulation, and how federal statutes governing banking have been subject to constant amendment in recent years, especially since the meltdown of the mortgage market.

Chapter 8 : Bank Regulation â€“ Principles of Economics

rethinking the principles of bank regulation: a review of admati and hellwig's bankers' new clothes by roger b. myerson, december*

Chapter 9 : Read Download Principles Of Bank Regulation Concise Hornbook Series PDF â€“ PDF Downl

Seven principles for better banking regulation We think that regulatory reform should be based on a few basic principles: A central regulatory body (such as the central bank) should have a mandate to maintain financial stability and be in charge of macroprudential supervision.