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The first major regulations on transition to Basel III has been approved

The Executive Board of the National Bank of Moldova (NBM) approved a set of normative acts on implementation of the Law on bank's activity [1], at the first stage, in accordance with Basel III requirements [2] and harmonized with the EU regulations in the field, known as the CRD IV / CRR package [3].

Thus, 9 regulations have been approved, which refer to banks' own funds and capital requirements, banks' capital buffers, credit risk treatment for banks according to standardized approach, credit risk mitigation techniques used by banks, treatment of operational risk for banks according to the core approach and standardized approach, market risk treatment according to the standardized approach, settlement/delivery risk treatment for banks, banks' specific calculation of credit adjustments and of general credit risk adjustments, as well as the Regulation on banks' external audit.

At the same time, the Instruction on presentation by banks of COREP reports for supervisory purposes has been approved and the Instructions on the method of preparing and submission by banks of reports for prudential purposes has been modified.

The new documents put an increased emphasis on the availability of capital to cover the risks of banks' activity and introduce new requirements to its structure. In addition, the requirements are also established for minimum capital thresholds by levels based on quality. The risk-weighted assets' structure has also been revised for a better risks capture. Thus, a lower capital allocation is attributed to safer assets, while higher-risk assets receive a higher share and respectively, implies a higher capital requirement.

As a new regulatory principle, Basel III provides the coverage of more types of risks compared to those that were covered by Basel I, such as the market and operational risks. Other risks are to be covered by internal management methods. Consequently, the banks shall maintain a risk management framework, which includes policies and procedures for management, identification, assessment, timely monitoring and control of risks.

In parallel, Basel III introduces new rules aimed to increase the effectiveness of risks' supervision by the bank's management body, as well as of the NBM.

In 2016, the National Bank of Moldova approved the Strategy on Basel III standards implementation [4] in the context of fulfilling the commitments assumed within the Association Agreement between the Republic of Moldova and the European Union. The foreign experts of the Twinning project, financed by the EU and implemented in the period 2015-2017 with the assistance of the National Bank of Romania and of the Central Bank of Netherlands, have supported the NBM in the process of strengthening the prudential supervision framework by harmonizing with the European Union central banks' standards. The project had as objective to improve the banking legislation, aimed at asserting a sound and competitive banking sector. The provisions of the Law on Basel III implementation framework will gradually enter into force to ensure the adaptation process of the domestic banks.

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