

The Future of Capital Regulation of Banks

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Abstract: The paper discusses the pro-cyclicality of financial intermediation and regulation of bank capital. It first introduces the reader to the history of bank capital regulation. Next, it describes the pro-cyclical elements in both the Basel I and Basel II. Afterwards it discusses some measures proposed to mitigate the alleged pro-cyclicality of Basel II. Then it discusses other measures addressing the pro-cyclicality of banking, such as the leverage ratio and dynamic provisioning. Finally, it concludes with a discussion of how an ideal bank capital regulation should look like.

Keywords: capital adequacy standards, dynamic provisioning, leverage ratio, pro-cyclicality, regulatory capital of banks
