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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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   REFERENCES

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

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WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

THE EFFECT OF BASEL III REQUIREMENTS ON IMPROVING RISK-MANAGEMENT CAPABILITIES IN JORDANIAN BANKS

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ABSTRACT

Capital adequacy is important ingredient for banking sector stability and this study focuses on assessing The Effect of Basel III requirements on improving risk-management capabilities in Jordanian Banks. The survey methodology was adopted and questionnaires were drawn to elicit information from financial accountants, risk management and regulatory compliance in Jordanian banks. (130) staffs were sampled. The mean scores of staff perceptions were analyzed and the t- test statistics was explored to test the hypotheses. The study found evidence that there is a positive relationship between Basel III requirement and increase quality of capital, increase quantity of capital, reduce leverage ratio, increase short term liquidity coverage and increase the stability of long tearm balance sheet funding for Jordanian commercial banks. Also the study advice to, enhance the current capital requirement for Jordanian banks, by starting to build up the new buffers from retained earnings and to take gradual action to mitigate the rise in risk-weighted assets.

KEYWORDS
Basel III, Bank for International Settlements (BIS), Basel Committee, Basel Committee on Banking Supervision (BCBS), Capital Adequacy, Liquidity.

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INTRODUCTION AND MOTIVATION TO THIS STUDY

The Basel III capital adequacy accord is the most recent international effort to establish a new capital standard for banks. Specifically, Basel III is an agreement on capital requirements among countries' central banks and bank supervisory authorities. The accords are not treaties. Member countries may modify the agreement to suite their financial regulatory structures. Basel capital accords are produced by the Bank for International Settlements Basel Committee on Banking Supervision (Ernst &Young, 2010). These agreements provide a framework for determining the minimum capital financial institutions must hold as a cushion against losses and insolvency. The less capital a bank holds the more capital it has to lend, which generally increases the bank's profitability, but makes it more vulnerable to losses and failure, which could lead to the need for government financial assistance. Without financial institutions holding this minimum amount of capital, banking regulators would not permit banking organizations to conduct normal banking business.

The proposed Basel III guidelines seek to improve the ability of banks to withstand periods of economic and financial stress by prescribing more stringent capital and liquidity requirements for them, and enhances banks‟ ability to conserve core capital in the event of stress through a conservation capital buffer. The prescribed liquidity requirements, on the other hand, are aimed at bringing in uniformity in the liquidity standards followed by banks globally. This would help banks better manage pressures on liquidity in a stress scenario(European Parliament, 2010).

On September 12, 2010, the Basel Committee for Banking Supervision (Basel Committee, 2010) specified further details for capital requirements, in particular target ratios and the transition periods during which banks must adapt to the new regulations.

The new regulation aspires to make the banking system safer by redressing many of the flaws that became visible in the crisis. Improving the quality and depth of capital and renewing the focus on liquidity management is intended to spur banks to improve their underlying risk-management capabilities. The rationale is that ultimately, if banks come to a fundamentally revamped understanding of their risks—what we call a new risk paradigm—that should be good for their business and for consumers, investors, and governments.

Basel III's focus is on capital and funding. It specifies new capital target ratios, defined as a core Tier 1 requirement of 7.0 percent (further specified as a minimum of 4.5 percent of core Tier 1 capital and a required capital conservation buffer of 2.5 percent). The broader requirement for all Tier 1 capital is set at 8.5 percent; this includes the core Tier 1 minimum of 7.0 percent and a minimum of additional (noncore) Tier 1 capital of 1.5 percent. Basel III also sets new standards for short-term funding and sketches out requirements for longterm funding(BIS, Sep,2010).

In response to the new regulation, banks are already building their capital and funding stocks and taking risk off their books in several ways. In addition, there are three other sets of actions to steer the ship through the currents of Basel III: better capital and liquidity management, balancesheet restructuring, and business-model adjustments.

The task is monumental, however. The reasarcher conclude that Jordainan Banks face a significant challenge merely to achieve technical compliance with the new rules and ratios, let alone to reorient the institution for success. Nor is the implementation challenge made much easier by the long transition periods prescribed by Basel III, with some rules not being implemented until 2019. In fact, jordanian banks should have to begin monitoring certain ratios well before the date of mandatory compliance to meet the requirements even sooner as a way to reassure markets and rating agencies and give themselves business flexibility.also to review the challenges of implementation.

THE PROBLEM OF THE STUDY

As a major task of banks is to measure and manage the risks that arise from their business activities and as stakeholders are generally concerned with the levels of risks that a financial institution has taken to achieve a particular outcome, Under Basel III the financial institutions will faces many challanges for implimintation, so in this reasarcher investigate if the current requirment under Basel III can led to inhance the quality and quantity of capital for jordanian banks by decreasing the risk and based on the above and for lack of research addressing these points , the reasarcher put the following hypothesis :

Hypothesis 1: There is a positive relationship between Basel III requirment and increase quality of capital for jordinain commercial banks.

Hypothesis 2: There is a positive relationship between Basel III requirment and increase quantity of capital for jordinain commercial banks.

Hypothesis 3: There is a positive relationship between Basel III requirment and reduce leverage ratio for jordinain commercial banks.

Hypothesis 4: There is a positive relationship between Basel III requirment and increase short tearm liqudity coverage for jordinain commercial banks.

Hypothesis 5: There is a positive relationship between Basel III requirment and increase the stability of long tearm balance sheet funding for jordinain commercial banks.

THE IMPORTANCE OF THE STUDY

The objective of the study is to improve the jordanian banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. This reasarch sets out the rules text and benifites for implemening the Basel III framework.

PURPOSE OF THE STUDY

The purpose of this study is to measure the current Basel III requirement and proof if led for Improving the quality and depth of capital and renewing the focus on liquidity management is intended to spur banks to improve their underlying risk-management capabilities.

LITERATURE REVIEW

In this chapter the researcher will discuss the Key Elements of the Basel III Framework, new definition of capital and liquidity requirement.

THE BASEL III CAPITAL ADEQUACY ACCORD

Basel III is a work in progress that is far from completion. What is being called Basel III is a consultative document entitled, strengthening the Resilience of the Banking Sector that was first promulgated on December 17, 2009, by the Basel Committee on Banking Supervision at the Bank for International Settlements (BIS) in Basel, Switzerland. This document was an expanded and updated version of an earlier document entitled, Enhancement of the Basel II Framework that was published in July 2009. There is yet to be a BIS document entitled Basel III. The purpose of these two documents was to specify how to improve the banking sector's ability to absorb financial and economic shocks arising from stresses, whatever the source. This in turn would reduce the risk of spillovers from the financial sector to the real economy. Specifically, the central part of the Basel III regulatory reform package is to establish the minimum regulatory capital and liquidity requirements that banks must hold to absorb unexpected losses.

A NEW DEFINITION OF CAPITAL

Basel III redefines regulatory capital. To raise the quality, consistency and transparency of regulatory capital, the committee determined that Tier 1 capital must consist predominantly of common equity and retained earnings. Under current standards, there are two types of capital counted in meeting the capital adequacy rules under Basel I—core capital and supplementary capital. Tier 1 is core capital and is made up of mainly common shareholders' equity (issued and fully paid), disclosed reserves, most retained earnings, and perpetual non-cumulative preferred stocks. Supplementary or Tier 2 capital consists of subordinated debt, limited-life preferred stocks and loan loss reserves, and goodwill (KPMG, 2011).

Banks can hold as little as 2% of common equity to risk weighted assets. Consequently, banks can display strong Tier 1 capital containing a limited amount of tangible common equity.

The financial crisis demonstrated that the resources to cushion against credit losses and write-downs came out of retained earnings, which is a part of a bank's tangible equity base. Under the Basel III framework Tier 1 capital is adjusted to narrow it as close as possible to bank tangible common shares. Goodwill and preferred stocks, as well as other assets, would not be included in the new Tier 1 capital. The committee had not set the percentage of risk-weighted assets that banks must hold in the form of the new Tier 1 capital (Peter, Bogie and Michael 2010).

Capital requirement policy that would increase the minimum common equity that banks must hold as capital from the current 2% to 4.5 % by 2015. However, instead of just tangible common equity, the central bank governors added mortgage servicing rights (MSRs), deferred tax assets (DTAs), and holdings in other financial institutions (HIOFIs) to be part of Tier 1. The banks argued that MSRs, which are contractual agreements in which the rights to service existing mortgages can be easily sold to offset unexpected losses, should be considered Tier 1 capital. DTAs, assets that are used to reduce the amount of taxes that a company will pay in a later tax period, were also added to Tier 1 capital. Bankers argued that DTAs are very liquid assets that can be used to offset unexpected losses. Finally, HIOFIs were considered by bankers as equivalent to the bank's own common equities and could be easily sold to offset losses. These three added assets, however, should not exceed in aggregate more than 15% of a bank's Tier 1 capital, which limits dilution of the amount of common tangible equity in Tier 1 capital. The total minimum total capital plus capital conservation buffer would be 8.0% on January 1, 2015. Between January 1, 2016, and January 1, 2019, there would be a 2.5% increase in the minimum total capital and conservation buffer at a rate of 0.625% per year, as shown in row 3 of Table 1, which would total 10.5% on January 1, 2019. Almost 60% of the minimum total capital plus conservation buffer would be Tier 1 capital. As mention above, Tier 1 capital would consist of common equity capital after adjustments and would be increased to 6.0% beginning January 1, 2015 (Committee of European Banking Supervisors, 2011)

A NEW LIQUIDITY REQUIREMENT

Banks experienced liquidity difficulties during the financial crisis, despite meeting their regulatory risk-weighted assets capital requirements. Basel III introduced a new global liquidity standard to be internationally harmonized (BCBS, 2009). The committee's standard establishes a minimum liquidity requirement along the lines of the minimum capital requirement of the Basel capital accords.

The rapid reversal of the liquidity market in 2008 placed the banking system under severe stress, which required central bank actions to support both the functioning of money markets and individual institutions (Daniel Pruzin, 2010). The Basel committee developed two minimum standards for funding liquidity. First, there is a 30-day liquidity coverage ratio, consisting mostly of government securities and cash, which would promote short-term resilience to potential liquidity disruptions. The second is a long-term structural ratio to address liquidity mismatches and provide incentives for banks to use stable sources to fund their operations.

On September 12, 2010, the central bank approved the introduction of the liquidity coverage ratio requirement effective in 2015 after an observation period beginning in 2011 and ending in December 2014. In the observation period, the committee plans to put in place rigorous reporting processes to monitor the ratio and continue to review the implications of the liquidity coverage ratio for financial markets, credit extensions and economic growth. (Walter, 2010) The new liquidity requirement Basel III introduces two new liquidity standards as follows:

The Liquidity Coverage Ratio ("LCR"):

The LCR is intended to measure a bank's ability to access funding for a 30 day period of acute market stress. Banks will be required to have a segregated stock of highly liquid and unencumbered assets that are at least equal to its estimated "net cash outflows" for a thirty day period during a time of acute liquidity stress. The 30 day stressed period assumes certain institution-specific and system wide liquidity shocks including a credit rating downgrade of the bank of three notches, partial loss of unsecured wholesale funding, withdrawal of some retail deposits, some committed but unfunded credit and liquidity lines provided by the bank being drawn down and general market volatility. High quality liquid assets: Qualifying high quality liquid assets (i.e., the numerator of the LCR) are generally unencumbered, easily and immediately convertible to cash with little or no loss of value even during times of stress, and central bank eligible.

Qualifying assets fall into one of two categories: Level 1 and Level 2. Only cash, central bank reserves and certain securities issued by governments, central banks and some international finance agencies constitute Level 1 assets. Other qualifying liquid assets will be treated as Level 2 assets. A 15% haircut is applied to all Level 2 assets and, after applying this haircut, Level 2 assets cannot make up more than 40% of the total liquid assets used to calculate the LCR. (Daniel Pruzin, 2010).

Also, regarding net cash outflows, Basel III sets out complex formulae for determining "net cash outflows" (i.e. the denominator of the LCR), which involve the weighting of cash inflows and outflows to determine net cash outflows. While the term "net cash outflow" suggests otherwise, a bank cannot completely net cash inflows and outflows for the purpose of calculating the denominator of the LCR.

The formula is designed to ensure that there will be enough high quality liquid assets to service at least 25% of un-netted cash outflows, in addition to having liquid assets sufficient to service 100% of net cash outflows. The Basel Committee also adopts a conservative approach to the treatment of credit facilities. Banks will not be able to include as a cash inflow their ability to draw down on any credit or liquidity facility lines granted by another bank, yet banks are required to assume a 100% drawdown of committed credit and liquidity facilities granted to other banks for the purpose of calculating cash outflows.

The Net Stable Funding Ratio ("NSFR"):

The purpose of the NSFR is to limit short-term liquidity mismatches and encourage the use of longer term funding (Kashyap and Stein, 2004). A bank is required to have stable funding sources in excess of the amount of stable funding it would likely need over a one-year period of extended market stress.

This is a longer term structural ratio that covers a bank's entire balance sheet as well as certain off-balance sheet commitments. Essentially a sufficient amount of stable funding is required to finance those assets which are regarded as not being capable of being monetized through sale or use as collateral in secured borrowings during a liquidity event lasting one year. Available stable funding: These are the available reliable sources of funds over a one-year period under conditions of extended stress.

Stable funding sources include Tier 1 and Tier 2 capital, preferred stock (that does not otherwise qualify as Tier 2 capital) with maturity greater than one year, liabilities with maturities greater than one year, and deposits and funding with maturities less than one year which would be expected to stay with the bank even during stress events. Basel III gives various stable funding sources different weightings, to be used in calculating the available amount of stable funding. These weightings reflect the perceived availability and stability of the various sources. Required funding: The amount of stable funding that is required is the sum of the various types of asset held and funded by a bank and off-balance sheet contingent exposures incurred and other activities of the bank that could expose it to liquidity risk - in effect the illiquid portion of a bank's asset book. Determining the required amount of stable funding is again a complex calculation that requires a bank's assets and activities to be weighted in accordance with various weighting factors. For example, encumbered (e.g., pledged) assets have a weighting of 100% unless the encumbrance expires within a year. Interestingly, loans to corporates would be assigned a higher weighting than equivalent borrowings by such corporates through bond issues.

Implementation of the LCR and NSFR: The observation period for both the LCR and the NSFR begins on January 1, 2012. The minimum standard for the LCR is intended to be introduced on January 1, 2015, and the NSFR minimum standard is intended to be introduced on January 1, 2018. It should be noted that the Basel Committee has already indicated that some refinements to the calculation of the LCR and the NSFR may be necessary. Impact: Compliance with the new liquidity ratios is likely to be the most challenging aspect of Basel III implementation for many banks. To ensure compliance, the Basel Committee recommends that banks and their supervisors regularly assess each bank's contractual maturity mismatch, concentration of funding, available unencumbered assets, and ability to satisfy liquidity ratios in all relevant currencies.

Despite the fact that Basel III provides for long implementation periods for these ratios, banks will need to be in a position to report data regarding liquidity by the beginning of the relevant observation period (which is January 1, 2012 for both the LCR and the NSFR). Banks may also be subject to market pressure to comply with the liquidity ratios even before the deadlines set out in Basel III.

RESEARCH DESIGN

In this chapter I will present the design of our research. First, the research hypotheses will be discussed. Second, the sample selection and composition is presented. Then, the empirical model used to test hypotheses will be explained and analysis:

Hypotheses development

As we know that Basel III applies for financial institutions. So Jordanian banks involves in the new reqyirment under basel III, therefore; Jordanian banks should: (i) review their current activities in order to identify new avenues; and (ii) revisit their risk management objectives and strategies and clarify them as necessary in order to apply the requirement under the new Basel III requirements, but i found that it may be useful for Jordanian banks to determine how these changes affect bank figures.

Based on the above the researcher will test the following hypotheses:

Hypothesis 1: There is a positive relationship between Basel III requirment and increase quality of capital for jordinain commercial banks.

Hypothesis 2: There is a positive relationship between Basel III requirment and increase quantity of capital for jordinain commercial banks.

Hypothesis 3: There is a positive relationship between Basel III requirment and reduce leverage ratio for jordinain commercial banks.

Hypothesis 4: There is a positive relationship between Basel III requirment and increase short tearm liqudity coverage for jordinain commercial banks.

Hypothesis 5: There is a positive relationship between Basel III requirment and increase the stability of long tearm balance sheet funding for jordinain commercial banks.

Sample selection

In my sample I will include all Jordanian banks, so the study population includes all Jordanian banks up to the year (2010)'s which is (16) Jordanian banks. The study sample included all of these banks,'s that represent sampling units.

Our primary respondents for representing the unit of analysis they are a financial accountants , risk management and regulatory compliance staff within banks , and after the distribution of questionnaires on the sample of the study, we have been obtained (60) questionnaire, which represented the study sample to reach the the objectives of this study.

Statistical Models

The research Relied on the questionnaire as a primary head to collect the necessary data for the study , also the researcher using the program package Statistical Social Sciences (SPSS) is a shortcut to a (Statistical package For Social Sciences) in the analysis of the data that was selected statistical methods appropriate to meet the objectives of the study and testing of hypotheses, where the we extracted frequencies in order to know the characteristics of the study sample, also we used the arithmetic mean as a measure of central tendency used to describe the study sample answers and the order of importance of items and degrees of approval or rejection for the items contained in the questionnaire.

Finally , the researcher using the test (t) for each sample (one sample T.test) to test five hypotheses of the study, and the reason for the use of this test is that it enables us to test hypotheses in the absence of our knowledge of the average value and standard deviation of the society as awhole .

DATA ANALYSES AND RESULTS

TABEL (1): STATISTICAL DATA TO MEASURE THE RELATIONSHIP BETWEEN BASEL III REQUIREMENT AND INCREASE QUALITY OF CAPITAL FOR JORDANIAN COMMERCIAL BANKS

The Figures	**Mean**	**S.D**
Common equity and retained earnings should be the predominant component of Tier 1 capital instead of debt-like instruments, well above the current 50 percent rule.	***4.12***	***0.94***
Harmonized and simplified requirements for Tier 2 capital with explicit target for Tier 2 capital.	***3.51***	***1.01***
Full deduction for capital components with little loss absorption capacity such as minority interests, holdings in other financial institutions, Deferred Tax Assets.	***4.3***	***0.88***
Gradual phase-out of hybrid Tier 1 components, including many of the step-up/innovative/SPV–issued Tier 1 instruments used by banks over the past decade.	***2.98***	***0.86***
Total Score	**3.73**	**0.60**

TABLE (2): T-TEST TO MEASURE THE RELATIONSHIP BETWEEN BASEL III REQUIREMENT AND INCREASE QUALITY OF CAPITAL FOR JORDANIAN COMMERCIAL BANKS

hypotheses	N	Mean	S.D	df	T-calculated
There is a positive relationship between Basel III requirment and increase quality of capital for jordinain commercial banks.	130	3.73	0.60	129	13.81

We can conclude that the value of the arithmetic average are (3.73) is higher than the arithmetic average of the value of (3) in the measuring tool, and the value of (t) calculated are (13.81) is higher than the tabular value of t (1.96) at the significance level ($\alpha = 0.05$), which indicates that There is a positive relationship between Basel III requirement and increase quality of capital for Jordanian commercial banks.

TABLE (3): STATISTICAL DATA TO MEASURE THE RELATIONSHIP BETWEEN BASEL III REQUIREMENT AND INCREASE QUANTITY OF CAPITAL FOR JORDANIAN COMMERCIAL BANKS

The Figures	Mean	S.D
Minimum common equity Tier 1: • Increased from 2.0 percent to 4.5 percent • Plus capital conservation buffer of 2.5 percent • Bringing total common equity requirements to 7.0 percent	*4.26*	*0.928*
Minimum total capital increased from 8.0 percent to 10.5 percent (including conservation buffer)	*3.36*	*1.189*
Total Score	*3.81*	*0.64*

TABLE (4): T-TEST TO MEASURE THE RELATIONSHIP BETWEEN BASEL III REQUIREMENT AND INCREASE QUANTITY OF CAPITAL FOR JORDANIAN COMMERCIAL BANKS

hypotheses	N	Mean	S.D	df	T-calculated
There is a positive relationship between Basel III requirement and increase quantity of capital for jordinain commercial banks.	*130*	*3.81*	*0.64*	*129*	*14.374*

We can conclude that the value of the arithmetic average are (3.81) is higher than the arithmetic average of the value of (3) in the measuring tool, and the value of (t) calculated are (14.37) is higher than the tabular value of t (1.96) at the significance level ($\alpha = 0.05$), which indicates that There is a positive relationship between Basel III requirement and increase quantity of capital for Jordanian commercial banks.

TABLE (5): STATISTICAL DATA TO MEASURE THE RELATIONSHIP BETWEEN BASEL III REQUIREMENTS AND REDUCE LEVERAGE RATIO FOR JORDINAIN COMMERCIAL BANKS

The Figures	Mean	S.D
The leverage ratio acts as a non-risk sensitive backstop measure to reduce the risk of a build-up of excessive leverage in the institution and in the financial system as a whole. The leverage ratio remains controversial, and there remains ambiguity about certain aspects of the exact mechanics.	*4.09*	*0.89*
The leverage limit is set as 3 percent, i.e. a bank's total assets (including both on- and off-balance-sheet assets) should not be more than 33 times bank capital.	*3.76*	*0.80*
In 2011, reporting templates will be developed. In 2013, regulators will start monitoring leverage ratio data, and the ratio will be effective from January 2018.	*4.55*	*1.00*
The ratio is introduced to supplement the risk-based measures of regulatory capital.	*3.21*	*0.98*
The leverage ratio is implemented on a gross and unweighted basis, not taking into account the risks related to the assets.	*4.32*	*0.79*
Total Score	*3.99*	*0.52*

TABLE (6): T-TEST TO MEASURE THE RELATIONSHIP BETWEEN BASEL III REQUIREMENT AND REDUCE LEVERAGE RATIO FOR JORDINAIN COMMERCIAL BANKS

hypotheses	N	Mean	S.D	df	T-calculated
There is a positive relationship between Basel III requirement and reduce leverage ratio for Jordanian commercial banks.	*130*	*3.99*	*0.52*	*129*	*21.622*

We can conclude that the value of the arithmetic average are (3.99) is higher than the arithmetic average of the value of (3) in the measuring tool, and the value of (t) calculated are (21.62) is higher than the tabular value of t (1.96) at the significance level ($\alpha = 0.05$), which indicates that There is a positive relationship between Basel III requirement and reduce leverage ratio for Jordanian commercial banks.

TABLE (7): STATISTICAL DATA TO MEASURE THE RELATIONSHIP BETWEEN BASEL III REQUIREMENTS INCREASE SHORT TEARM LIQUDITY COVERAGE FOR JORDINAIN COMM. BANKS

The Figures	Mean	S.D
the Basel Committee has further strengthened its liquidity framework by developing two minimum standards for funding liquidity	*2.91*	*0.94*
The 30-day Liquidity Coverage Ratio (LCR) is intended to promote short-term resilience to potential liquidity disruptions. The LCR will help ensure that global banks have sufficient high-quality liquid assets to withstand a stressed funding scenario specified by supervisors.	*3.51*	*1.01*
For the LCR, the stock of high-quality liquid assets is compared with expected cash outflows over a 30-day stress scenario. The expected cash outflows are to be covered by sufficiently liquid, high-quality assets.	*3.47*	*0.88*
Assets get a 'liquidity'– based weighting varying from 100 percent for government bonds and cash to weightings of 0 percent – 50 percent for corporate bonds.	*2.98*	*0.86*
Total Score	*3.22*	*0.32*

TABLE (8): T-TEST: TO MEASURE THE RELATIONSHIP BETWEEN BASEL III REQUIREMENT AND INCREASE SHORT TEARM LIQUDITY COVERAGE FOR JORDINAIN COMMERCIAL BANKS

hypotheses	N	Mean	S.D	df	T-calculated
There is a positive relationship between Basel III requirement and increase short tearm liquidity coverage for Jordanian commercial banks.	*130*	*3.22*	*0.32*	*129*	*7.808*

We can conclude that the value of the arithmetic average are (3.22) is higher than the arithmetic average of the value of (3) in the measuring tool, and the value of (t) calculated are (7.808) is higher than the tabular value of t (1.96) at the significance level ($\alpha = 0.05$), which indicates that There is a positive relationship between Basel III requirement and increase short tearm liquidity coverage for Jordanian commercial banks.

TABLE (9): STATISTICAL DATA TO MEASURE THE RELATIONSHIP BETWEEN BASEL III REQUIREMENTS AND INCREASE THE STABILITY OF LONG TEARM BALANCE SHEET FUNDING FOR JORDINAIN COMMERCIAL BANKS

The Figures	Mean	S.D
The Net Stable Funding Ratio (NSFR) is designed to encourage and incentivize banks to use stable sources to fund their activities to reduce the dependency on short-term wholesale funding	*3.36*	*0.89*
The NSFR compares available funding sources with funding needs resulting from the assets on the B/S.	*2.85*	*0.80*
Required and available funding amounts are determined using weighing factors, reflecting the "stability" of the funding available and the duration of the asset.	*4.04*	*1.00*
The weighing factors for assets vary from 0 percent and 5 percent for cash and government bonds, respectively to, 65 percent for mortgages, 85 percent for retail loans, and 100 percent for other assets.	*3.42*	*0.98*
For determining stable funding available for liabilities, the weighing factors vary from 100 percent for Tier 1 capital to 90 percent for core retail deposits and 50 percent for unsecured wholesale funding	*3.96*	*0.79*
Total Score	*3.53*	*0.49*

TABLE (10): T-TEST TO MEASURE THE RELATIONSHIP BETWEEN BASEL III REQUIREMENT AND INCREASE THE STABILITY OF LONG TEARM BALANCE SHEET FUNDING FOR JORDINAIN COMMERCIAL BANKS

hypotheses	N	Mean	S.D	df	T-calculated
There is a positive relationship between Basel III requirment and increase the stability of long tearm balance sheet funding for jordinain commercial banks	*130*	*3.53*	*0.49*	*129*	*12.284*

We can conclude that the value of the arithmetic average are (3.31) is higher than the arithmetic average of the value of (3) in the measuring tool, and the value of (t) calculated are (12.284) is higher than the tabular value of t (1.96) at the significance level (α = 0.05), which indicates that There is a positive relationship between Basel III requirement and increase the stability of long tearm balance sheet funding for Jordanian commercial banks

RESULTS

The previous sections of this chapter presented the results of our research. In this section, we will recap and analyze these results.

First, there is a positive relationship between Basel III requirment and increase quality of capital, increase quantity of capital, reduce leverage ratio, increase short tearm liqudity coverage and increase the stability of long tearm balance sheet funding for jordinain commercial banks.

Second, Basel III would make significant changes in bank regulatory capital requirements. It would increase the amount of common tangible equity held as minimum regulatory capital because common equity improves loss absorbency.

Third, the purpose of Basel III is to remedy the regulatory capital and liquidity failures that resulted in the 2007-2009 global financial crises.

Fourth, Basel III redefines regulatory capital. To raise the quality, consistency and transparency of regulatory capital, the committee determined that Tier 1 capital must consist predominantly of common equity and retained earnings. Under current standards, there are two types of capital counted in meeting the capital adequacy rules under Basel I—core capital and supplementary capital. Tier 1 is core capital and is made up of mainly common shareholders' equity (issued and fully paid), disclosed reserves, most retained earnings, and perpetual non-cumulative preferred stocks. Supplementary or Tier 2 capital consists of subordinated debt, limited-life preferred stocks and loan loss reserves, and goodwill.

Fifth, The key elements of the proposed Basel III guidelines include the following:

1. Definition of capital made more stringent, capital buffers introduced and Loss absorptive capacity of Tier 1 and Tier 2 Capital instrument of Internationally active banks proposed to be enhanced.
2. Forward looking provisioning prescribed
3. Modifications made in counterparty credit risk weights
4. New parameter of leverage ratio introduced
5. Global liquidity standard prescribed

Finally, Basel III is more than just another set of checks and balances for financial institutions in a post-crisis world. It represents the core component of a sweeping wave of regulation that will fundamentally affect the profit generation capacity of the banking industry. As such—and despite the seemingly benign long phase-in periods— banks should move now, decisively, to comply with requirements, restore their profit-generation capacity, and potentially revisit the way they do business in the future.

RECOMMENDATIONS

First, we advise central bank of Jordan to regulate the Basel III requirement and enforce Jordanian banks for adopting by phases and taking into consideration long transition periods for implementation.

Second, central bank of Jordan should require banks to have an effective system in place to identify measure, monitor and control capital as part of an overall approach to Basel III.

Third, Jordanian banks should take into consideration the following points:

- Identify which businesses have most attractive fundamentals under Basel III and which businesses in the firm's portfolio should be considered for exiting, growing, or diverting.
- Ensure an understanding of current liquidity position in sufficient detail and possession of knowledge of where the stress points are
- Ensure management has adequate incentive to optimize use of capital.
- Evaluation of strategic options by examine capital and liquidity management strategies , capital market transactions, and product/business line adjustments

Fourth, Jordanian banks should starting to build up the new buffers from retained earnings and to take gradual action to mitigate the rise in risk-weighted assets.

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APPENDIX 1: QUESTIONER

QUESTIONS	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Common equity and retained earnings should be the predominant component of Tier 1 capital instead of debt-like instruments, well above the current 50 percent rule.					
Harmonized and simplified requirements for Tier 2 capital with explicit target for Tier 2 capital.					
Full deduction for capital components with little loss absorption capacity such as minority interests, holdings in other financial institutions, Deferred Tax Assets.					
Gradual phase-out of hybrid Tier 1 components, including many of the step-up/innovative/SPV–issued Tier 1 instruments used by banks over the past decade.					
Minimum common equity Tier 1: • Increased from 2.0 percent to 4.5 percent • Plus capital conservation buffer of 2.5 percent • Bringing total common equity requirements to 7.0 percent					
Minimum total capital increased from 8.0 percent to 10.5 percent (including conservation buffer)					
The leverage ratio acts as a non-risk sensitive backstop measure to reduce the risk of a build-up of excessive leverage in the institution and in the financial system as a whole. The leverage ratio remains controversial, and there remains ambiguity about certain aspects of the exact mechanics.					
The leverage limit is set as 3 percent, i.e. a bank's total assets (including both on- and off-balance-sheet assets) should not be more than 33 times bank capital.					
In 2011, reporting templates will be developed. In 2013, regulators will start monitoring leverage ratio data, and the ratio will be effective from January 2018.					
The ratio is introduced to supplement the risk-based measures of regulatory capital.					
The leverage ratio is implemented on a gross and unweighted basis, not taking into account the risks related to the assets.					
the Basel Committee has further strengthened its liquidity framework by developing two minimum standards for funding liquidity					
The 30-day Liquidity Coverage Ratio (LCR) is intended to promote short-term resilience to potential liquidity disruptions. The LCR will help ensure that global banks have sufficient high-quality liquid assets to withstand a stressed funding scenario specified by supervisors.					
For the LCR, the stock of high-quality liquid assets is compared with expected cash outflows over a 30-day stress scenario. The expected cash outflows are to be covered by sufficiently liquid, high-quality assets.					
Assets get a 'liquidity'– based weighting varying from 100 percent for government bonds and cash to weightings of 0 percent – 50 percent for corporate bonds.					
The Net Stable Funding Ratio (NSFR) is designed to encourage and incentivize banks to use stable sources to fund their activities to reduce the dependency on short-term wholesale funding					
The NSFR compares available funding sources with funding needs resulting from the assets on the B/S.					
Required and available funding amounts are determined using weighing factors, reflecting the "stability" of the funding available and the duration of the asset.					
The weighing factors for assets vary from 0 percent and 5 percent for cash and government bonds, respectively to, 65 percent for mortgages, 85 percent for retail loans, and 100 percent for other assets.					
For determining stable funding available for liabilities, the weighing factors vary from 100 percent for Tier 1 capital to 90 percent for core retail deposits and 50 percent for unsecured wholesale funding					

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