THE IMPACT OF CHANGES IN BASEL CAPITAL REQUIREMENTS ON BANKS VALUES AND FINANCIAL PERFORMANCE IN SOUTH AFRICA

Damilola Oyetade

University of KwaZulu-Natal

Email: 213574014@stu.ukzn.ac.za

Paul-Francois Muzindutsi

University of KwaZulu-Natal

Email: MuzindutsiP@ukzn.ac.za

The global financial crisis of 2007-09 negatively affected investors’ confidence to select bank stocks, yet compliance to higher Basel capital requirements in the post-crisis is achieved with increasing bank common equity. It is expected that changes in Basel levels should cause a fall in EPS, as more shares will be issued to achieve higher capital requirements. This study employs both panel and event study methodology using multiple performance measures. Multiple performance measures allow the study to examine the impact of changes in Basel levels and the effects of tighter Basel regulations on bank values, returns to shareholders and bank performance from market and accounting approach. Sample data is on five South African (SA) commercial banks having 90% of total banking assets. Monthly data is sourced from Bloomberg and S&P Capital IQ databases, for the period 2006-2017. The sample cover period of the 2007-09 financial crisis, the period that the country adopted Basel II in 2008 and Basel III in 2013 to examine the impact of these events on bank values and financial performance. The findings will show whether changes in Basel levels have impact on bank values and bank performance. And whether the banks use common equity to achieve higher capital requirements of Basel regulations. The study is relevant, as SA banks are highly capitalized above the existing Basel II & III capital requirements and were immune from the effect of global financial crises, however, it is important to examine the impact the proposed changes that Basel IV capital requirements will have on bank values and performance of banks, given that SA banks were fully compliant to existing Basel regulations vis-à-vis the developed countries.

Keywords

EPS, Bank Regulations and Common Equity