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Basilea 3 e Dintorni

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LE NUOVE REGOLE DI BASILEA 3

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The Agreement by the BCOB on Quantification and Phasing-in of Basel III Capital Standards: main features and points for discussion.

On 12 September 2010, the Group of Central Bank Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision (“BCBS”), issued a press release¹ announcing a substantial strengthening of the capital requirements, and its full endorsement of the agreement it had reached on 26 July 2010² in relation to the proposed reforms to the Basel II framework. These elements are intended to form part of a package of reforms to be known as Basel III, to be submitted to the November 2010 G-20 Meeting.

As was argued, repair of the capital standards is a crucial component of the overall reform of the financial system.

The new agreement represents an important step in the right direction.

A fair and comprehensive assessment is not easy, largely because several key issues remain unresolved even at the Committee level, including the amount and form of additional capital that will be required for systemically important institutions. Additionally, many of the details of the new framework will remain unclear for some time to come.

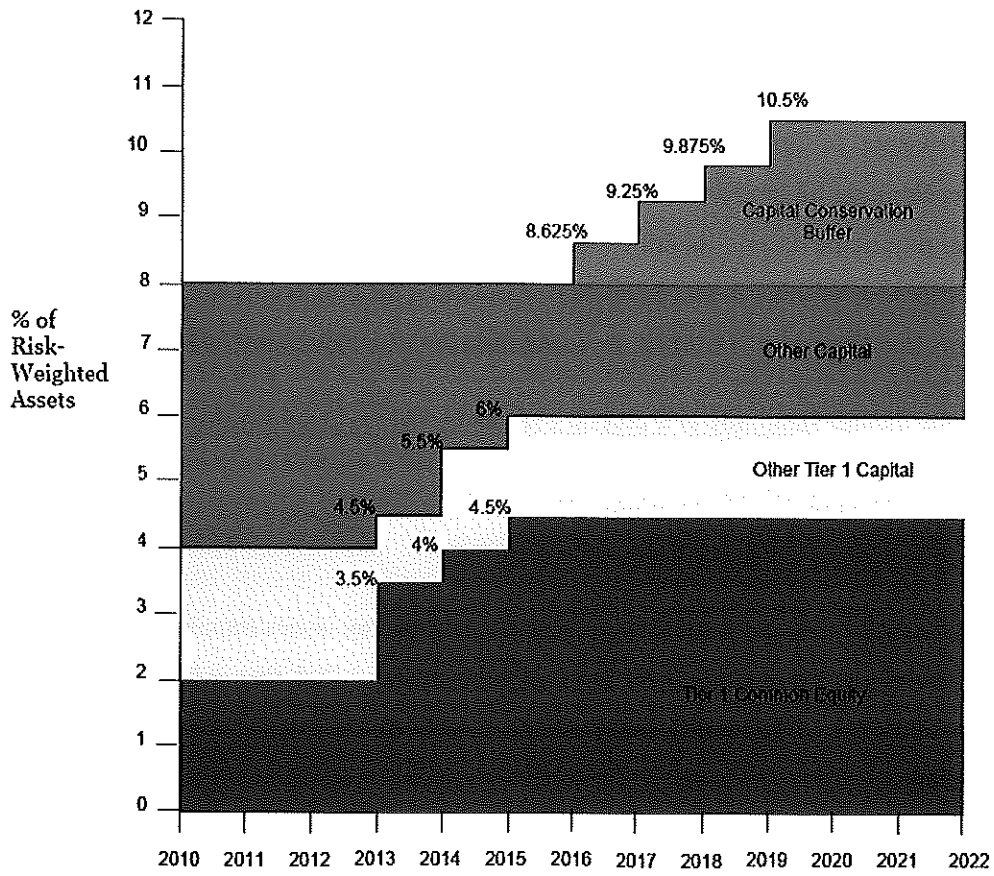
The basic thrust of the new system goes in the right direction and must be supported, notably in respect of both the quality and the quantity of the capital base. The wave of criticism – epitomised by the lead article of the FT on September 15, 2010 by Martin Wolf (2010), according to who the new Basel III will not help create a safe system (“the mountain of Basel has brought forth a mouse”) – should not be followed.

But certain key areas of the agreement appear, in the light of the analytic framework presented in this paper, in need of refinement/reconsideration. Accordingly, the Appendix is structured as follows: Paragraphs A.1-2-3 (and **Charts 12 and 13**) summarize the key elements of the proposed framework. Some suggested areas of adaptation are outlined in Paragraph A.4.

¹ Basel Committee on Banking Supervision (2010c).

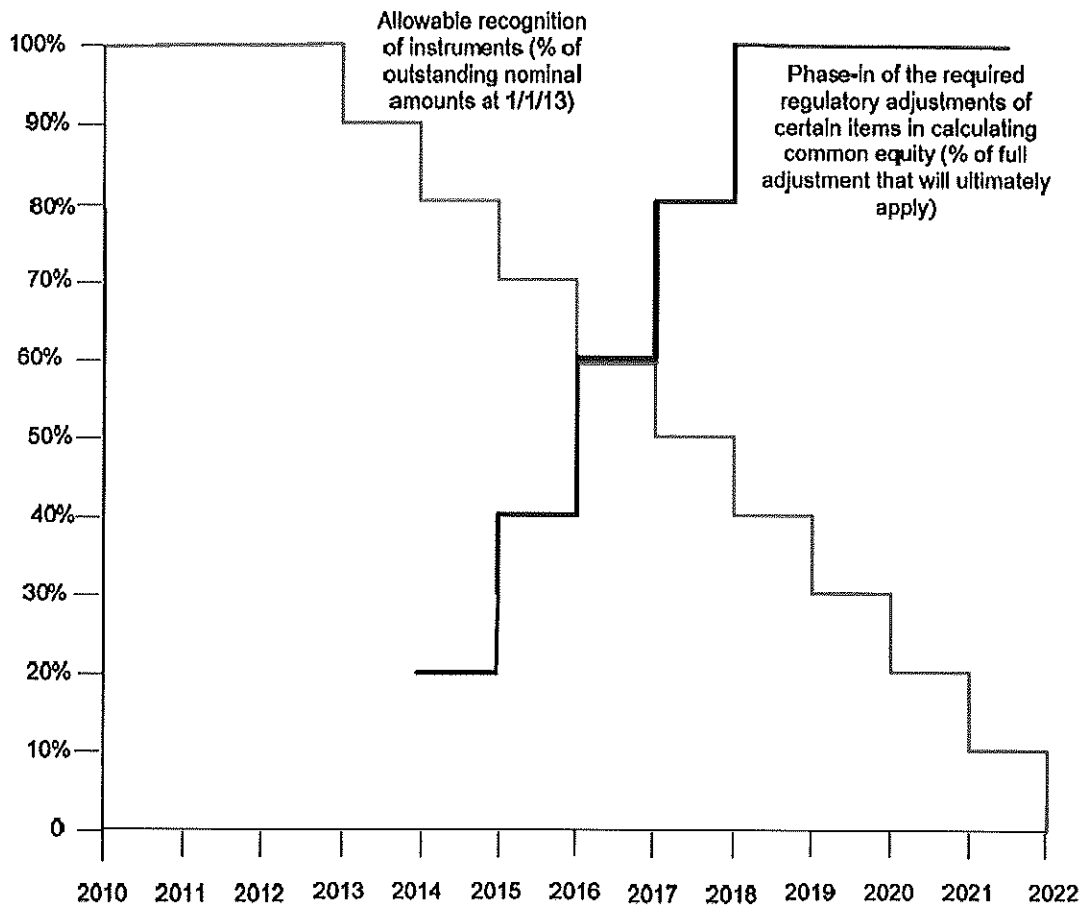
² Basel Committee on Banking Supervision (2010a).

Chart 12 - Basel III: Minimum Capital Requirements.



Source: Morrison & Foerster (2010).

Chart 13 - Recognition of (a) Non-common equity instruments (issued before 13 September 2010)³ that no longer qualify as Tier 1 or Tier 2 capital, and (b) Certain non-joint stock company instruments no longer qualifying as Common Equity Tier 1 capital⁴.



(All dates refer to 1 January)

Leverage Ratio	Supervisory Monitoring	Parallel Run	Pillar 1
		Disclosure	
Liquidity Coverage Ratio	Observation Period	Minimum Standard In Force	
Not Stable Funding Ratio	Observation Period	Minimum Standard In Force	

Source: Morrison & Foerster (2010).

³ Capital instruments issued after 12 September 2010 cannot benefit from the phase-out arrangements.

⁴ Generally, capital instruments no longer meeting the requirements for inclusion in common equity Tier 1 capital will be excluded from common equity Tier 1 from 1 January 2013.

A.1. Increased Minimum Capital Requirements

▪ Common Equity Risk-Based Capital

The minimum requirement for the common equity component of tier 1 capital will be increased from 2% of risk-weighted assets under the current framework, measured before the application of capital deductions, to 4.5% of risk-weighted assets, measured after the application of the stricter capital deductions required under the Basel III framework. However, when combined with the capital conservation buffer (described below), the resulting common equity requirement under Basel III will be 7% of risk-weighted assets.

The new minimum requirement for common equity will be phased-in beginning with a 3.5% requirement in January 2013 and increasing to 4.5% by January 2015.

▪ Tier 1 Risk-Based Capital

Over the same transition period (i.e., 2013 to 2015), the minimum tier 1 capital requirement will increase from 4% of risk-weighted assets, as under the current framework, to 6% of risk-weighted assets using Basel III's narrower definition of tier 1 capital.

▪ Total risk-based capital

The minimum requirement for total capital under the Basel III framework remains unchanged at 8% of risk-weighted assets. Again, however, the 8% requirement must be satisfied using Basel III's more stringent definition of capital. Thus, when combined with the capital conservation buffer, the total capital requirement under Basel III is effectively 10.5%: this should effectively be compared with 2% under Basel II, a five-fold increase!

▪ Capital Conservation Buffer

The capital conservation buffer, which must consist of common equity, is a capital cushion to be maintained above the Basel III minimum capital requirements that is intended to be available to absorb losses during times of financial stress. Under the Basel III framework, the capital conservation buffer will be set at 2.5% of risk-weighted assets. Although banks will be permitted to draw on the conservation buffer during periods of stress, as regulatory capital levels get closer to the minimum requirements (i.e., as the buffer is depleted), greater constraints on earnings distributions such as dividend payments and discretionary employee bonuses will be triggered. Institutions subject to Basel III are likely to target levels of capital that exceed not just the regulatory minimums, but rather the regulatory minimums plus the capital conservation buffer.

- **Leverage Ratio**

As announced in July, the minimum risk-based capital requirements under Basel III will be supplemented by a non-risk-based minimum tier 1 leverage ratio, which has been tentatively set at 3%. The appropriateness of the 3% ratio (and the use in the numerator of tier 1 capital as opposed to total capital or common equity) will be assessed during a parallel run period from 2013-2017, with the leverage ratio requirement not becoming final until 2018.

A.2. Transition Arrangements

The increases to the minimum common equity and tier 1 capital ratios will be phased-in over two years beginning in January 2013, with the full increases taking effect in January 2015. This will be followed by a three-year phase-in beginning in January 2016 of the capital conservation buffer, with the full 2.5% buffer requirement taking effect in January 2019. In addition, the deduction from tier 1 capital of excess (i.e., over 15% of common equity in the aggregate) minority investments in financial institutions (FIs), mortgage servicing rights (MSRs), and certain deferred tax assets (DTAs) will be phased-in over a five-year period in 20% increments beginning in 2014, so that the full deduction will not take effect until January 2018.

Public sector equity investments are fully grandfathered until January 1, 2018. Instruments no longer qualifying as non-common equity tier 1 capital (e.g., trust preferred securities) or tier 2 capital will be phased out over a 10-year period beginning in January 2013, with recognition of those instruments as qualifying capital being reduced by 10% each year, using the nominal amount outstanding on January 1, 2013, as a baseline.

Capital instruments that no longer qualify as common equity, however, generally will be excluded altogether from common equity as of January 1, 2013.

A.3. Outstanding Issues

Although the minimum capital requirements and transition arrangements constitute crucial components of the Basel III package, other important issues have yet to be resolved.

- **Systemically Important Institutions**

The Basel III release confirms, without providing any further detail, that systemically important banks will be expected to maintain capital beyond the minimum regulatory requirements. The announcement simply notes that the Committee, together with the Financial Stability Board, continues to work on a “well-

integrated approach” to systemic institutions that could include “combinations of capital surcharges, contingent capital and bail-in debt”. G-SIFI’s are supposed to have even higher loss absorbency capacity.

- **Countercyclical Capital Buffer**

In addition to the capital conservation buffer, the Basel III framework also contemplates a countercyclical capital buffer that would be funded on a jurisdiction-specific basis during periods of excess credit growth resulting in a build-up of systemic risk. According to the announcement, the countercyclical capital buffer would cover a range of 0% to 2.5% of risk-weighted assets, would need to be composed of common equity “or other fully loss absorbing capital” when funded, and would be implemented “according to national circumstances”.

- **Net Stable Funding Ratio**

The Basel III release reiterates the Committee’s commitment to issue a revised minimum net stable funding ratio (NSFR), which is intended to promote longer-term structural funding of banks’ balance sheets, off-balance sheet exposures and capital markets activities.

As first announced in July 2010, the NSFR released as part of the December 2009 Basel III proposal is in the process of being revised, and a new NSFR proposal is expected by year-end 2010. The revised NSFR is not scheduled to take effect as a minimum standard until 2018.

A.4. Suggested adaptations

- **The timeline**

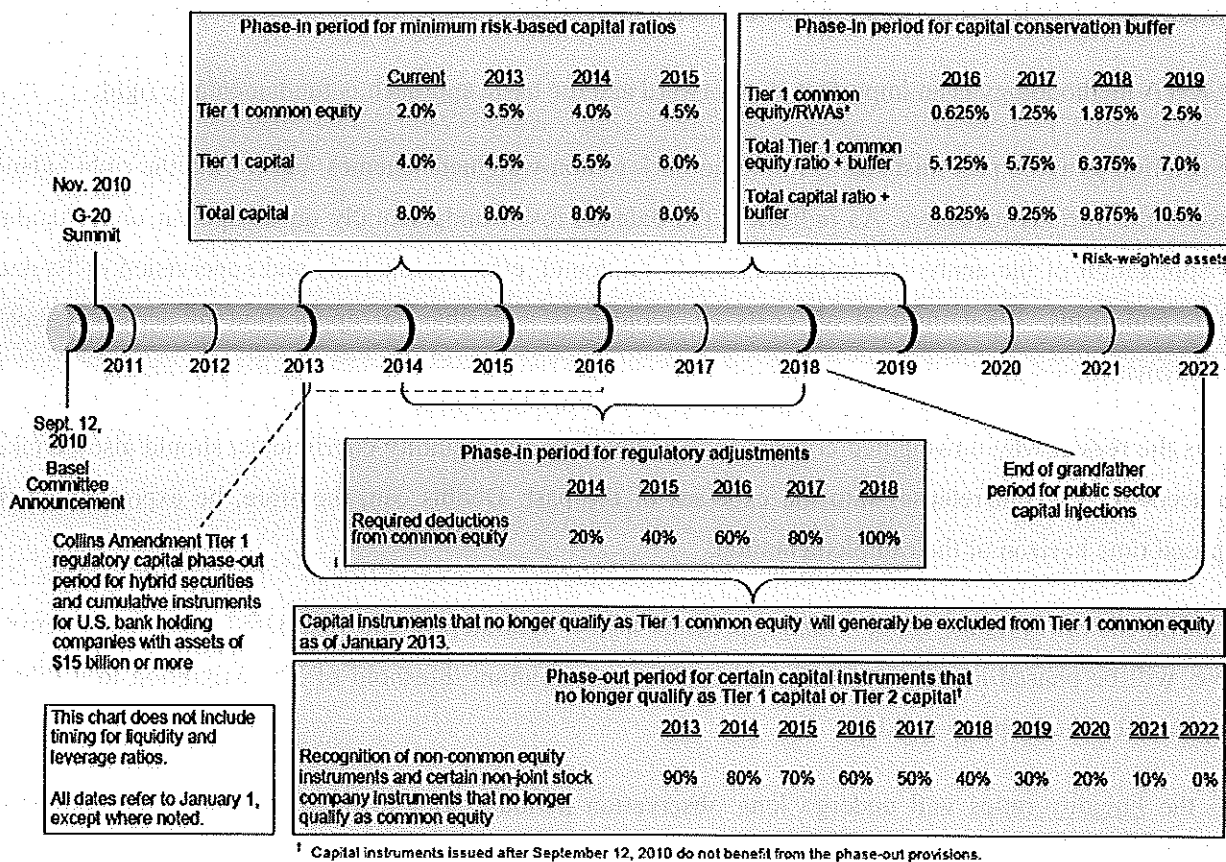
It is no doubt difficult to strike the right balance between strengthening banks balance sheets and allowing financial institutions to sustain economic recovery. The new capital, leverage and liquidity standards described above were undoubtedly influenced by concerns about the impact of higher capital requirements on bank lending and the faltering pace of economic recovery.

As a result, the timeline for implementation of the new requirements (grandfathering) is exceptionally long (12 years), as indicated in detail in **Chart 14**. Lengthy transitional periods to implement announced long-term targets may have important drawbacks.

If the truly “sound” standards are to be met so faraway, the markets, in case of impending stress, may well react adversely and force financial institutions towards immediate respect of the stricter criteria. This would exacerbate procyclicality. There are already worrying signs that markets push for a very early implementation of the new final quantitative standards, which is detrimental to the still fragile recovery.

Let us remind that available estimates indicate that Basel III reforms, when fully in place, would cost European banks some €500 billion in extra-capital and €1.5 trillion in debt, to finance lending.

Chart 14 - Basel Committee: Yearly Timeline for Global Minimum Capital Standards.



Source Davis Polk & Wardwell LLP (2010).

▪ **Non Risk-Based Complementary Requirements**

The phase-in period is especially long in respect of these crucial limits. As indicated, one of the fundamental defects of the traditional Basel approach was the misuse of Risk Weighted Assets (RWA) in the assessment of required capital.

There were three main problems with this approach:

- (i) it was backward-looking since it assumed that the securities which had been risky in the past would be the same as the securities that would become risky in the future. This is not necessarily true;
- (ii) it was easy to game. Taking any additional measurable risk requires more capital. The game became how to increase returns without increasing measured risk! Correct application is, therefore, of fundamental importance. It was here that the supervisory process proved inadequate;
- (iii) models used were inappropriate, since they were based on too short historical references and on normal distributions⁵.

Risk could be made exceedingly small in Basel I and Basel II. Even in Basel III very high leverage is allowed, especially in respect of securities with very high ratings.

The RWA methodology is an important step forward and the basic approach is fundamentally right.

The solution to avoid past mistakes is not to go back to non-weighted schemes, but to find the right balance between the various measures. As indicated, the balance rests fundamentally on competent understanding and application of the analytical models used and on sound, effective analysis and supervision of banking groups and firms. What must at all costs be avoided is a mechanical application of across-the-board coefficients.

This is the reason why unweighted criteria, such as leverage and liquidity coefficients, should also be taken into account, to avoid relapses into the excesses of the past. Doubts can, therefore, be expressed on the proposed time horizon of their implementation.

As indicated, the leverage ratio, which represents a key back-stop to the risk-based measures discussed above, will be phased-in only by 2017, and applying a minimum threshold of 3%. Migration to a Pillar I treatment would take place in 2018.

Also the liquidity ratios will undergo long observation periods, prior to their introduction, as minimum standards, due to take place ultimately in 2018.

▪ **The capital buffers**

The new additional capital conservation buffer is introduced to absorb losses in periods of financial and economic stress, and should be met exclusively with common equity. The BCOB also agreed on a countercyclical buffer. This buffer will be triggered in good times, so that banks can be more stable during financial crises. But no objective trigger point has been indicated to signal when banks will need to build up

⁵ For an elaboration of these points see Masera R. (2009a).

the buffer and when they will be allowed to draw on that capital if needed. This decision will be left to regulators in each individual country.

The problem with RWA incentives is that, if they are large and remain mechanically in place over the long term, they can produce unintended consequences, like over-exposure to a specific sector or form of lending for which there is no historical experience and a consequent under-pricing of risk.

They can also, as the US mortgage experience and the fallout on the entire housing market has demonstrated, cause behaviors and forms of regulatory arbitrage that create but disguise risk. Good supervision and enterprise risk management are the first lines of defense against distortions.

The envisaged framework is complex and burdensome from an operational point of view. The case has already been made (pp. 15-16) that reliance on countercyclical provisioning by banks, with appropriate adaptation of fiscal and accounting rules, would represent a sounder and simpler approach. No bank is allowed by the markets to run down its capital base precisely when things get difficult.

- **Commercial banking vs. Investment banking**

After the collapse of Bear Stearns and the failure of Lehman two years ago the demise of investment banking seemed inevitable. And, in spite of the Volcker Rule, the regulation to distinguish clearly between investment and commercial banking, is waning.

Basel III does not endorse in any way the split approach. It is instead consistent with subsidiarisation, and well specified living wills. Paradoxically it could lead commercial banks to increase funding in wholesale markets. The intrinsic stability of a well-run “traditional” bank model, based on core deposits, is not recognized. And yet this should be a clear lesson of the crisis, particularly evident from the Italian experience. Thus, the banking model most conducive to financial stability and growth in economies characterized by the importance of SME's might be a casualty of the Basel framework.

- **Trading and banking books and government bonds**

The capital Risk-Weighted-Assets approach proved inadequate in averting the crisis. This was partly due to the deficiencies of risk models, based on normal probability distributions, which were carried over to stress tests.

The lessons have been taken home, but some important issues are not yet fully recognized. The point was made (p. 4) that the hypothesis of orthogonality between government “risk free” interest rates and risk premiums of private borrowers cannot be regarded as a general axiom.

Stress tests, according to the Basel framework, also very recently, have been conducted without full recognition of this point. More specifically, the use of haircuts to government paper only in respect of the trading book should be questioned.

More generally, as has been rightly observed (Reinhart C., 2010), the Basel III approach continues to push banks towards investment in (domestic) government bonds. This may be “politically correct” under current circumstances, but may entail significant risks, especially in the European context.

The markets are aware of this, as witnessed by the fact that very sound industrial and services corporations, based in triple-A rated countries, are able to borrow in better terms than most banks and many governments.

- **Systemically important banks and resolution procedures**

This especially important area is still work in progress in Basel. The following remarks are, therefore, only tentative suggestions on the basis of available information.

The BCOB states that SIFIs should have higher “loss absorbing capacity” than required by the new standards. The integrated approach potentially includes combinations of capital surcharges, contingent capital and bail-in debt, in addition to the measures to strengthen resolution regime.

As we have seen, the Dodd-Frank Act imposes some general principles and also details the basic procedures for resolution.

The position of the present author is that SIFIs should be made to bear the systemic risks they pose, so that bail-outs with public money are ruled out. The existence of excessively large, complex, difficult to manage and to supervise financial conglomerates with no clear specialization and focus should be discouraged. However this should be done preferably through systemic-risk-related fees, to be paid to resolution fund (a model similar to that outlined in the Dodd-Frank Act), rather than by imposing capital surcharges (Masera R., Mazzoni G., 2010). In this respect, objective criteria should be developed to identify such institutions and monitor their contribution to risk.

More generally, the problems by SIFIs cannot be effectively dealt with without simultaneously addressing the issues of crisis management and resolution regimes. The Dodd-Frank Act shows clearly this point, which is not yet satisfactorily treated in the new Basel framework.

We have indicated that in the EU important difficulties must be overcome in this area. National authorities and jurisdictions will detail their own resolution regimes, which must be made consistent at European level. Additionally, the specific business models of systemically important financial institutions in Europe can be very different, and their dangerousity evidently varies. This critical issue is not yet satisfactorily addressed.

From a supervisory angle, Basel III must ensure full disclosure and transparency of SIFIs, also with the view to ensuring better market discipline. The intertwining of sovereign and SIFI risks should be recognized and appropriately dealt with in the new capital standard.

Finally, the very high capital charges which are targeted in the medium term, but can be forced by markets much sooner, propose again the issue of regulatory arbitrage and the operation of the “shadow banking system”.

RIFLESSIONI DI SINTESI SU BASILEA III

1. L'approccio di Basilea si propone di ridurre il rischio di fallimento di una banca introducendo un cuscinetto di capitale contro eventi avversi, non previsti (capitale a fronte di perdite inattese).

Il concetto di fondo è corretto: i rischi sono connessi al totale dell'attivo, ponderato rispetto ai rischi effettivi. Ma il tallone di Achille del regime di Basilea, purtroppo non rimosso da Basilea III, è quello di ritenere che vi possa essere un rapporto di capitale predefinito che assicura nel tempo e nello spazio il grado desiderato di stabilità del sistema bancario.

Come è stato osservato dallo stesso Governatore della Banca d'Inghilterra Mervyn King (2009)⁶, la rischiosità degli attivi e la liquidità e disponibilità delle fonti di finanziamento si possono modificare repentinamente e radicalmente, anche a seguito di cambiamenti nelle aspettative.

Inoltre, la rischiosità non è comunque invariante rispetto al modello e alle caratteristiche strutturali del sistema bancario preso in esame, delle forme funzionali e operative, della morfologia dei prestiti e della raccolta, e quindi dell'articolazione nazionale.

Declino i due profili con riferimento a Basilea III.

2. Apparentemente, la proiezione al 2019 (2022) dei parametri ideali per assicurare la stabilità del sistema risponde alla prima considerazione. Si è, in particolare, voluto evitare di gravare il sistema economico di oneri eccessivi in una fase delicata di graduale, fragile e incerta ripresa economica. Ma resta il problema di fondo: si possono realmente configurare parametri ideali e "assoluti" a dieci anni data?

Soprattutto, in caso di rinnovate tensioni, il mercato non è sollecitato a richiedere subito il rispetto di quei parametri quantitativi indicati come sicuri?

Se così fosse, e vi è evidenza che il mercato già oggi spinge in questa direzione (l'Irlanda, ad esempio, ha annunciato che verrà imposto alle banche del paese un rapporto di capitale tier 1 del 12% nel breve termine), l'effetto negativo sulla crescita, sul rischio, sulle stesse esigenze di capitale sarebbe inevitabile.

D'altra parte, contrariamente a coloro che hanno sostenuto che la montagna di Basilea ha partorito un topolino, l'assetto richiesto dal nuovo standard di capitale avrà pesanti conseguenze sul sistema bancario europeo.

Faccio al riguardo riferimento all'evidenza empirica raccolta in un ottimo, recente studio di McKinsey⁷. Ho sintetizzato le stime a regime, d'impatto e dinamiche, nella Tavola 1.

⁶ Mervyn King (2009), *Speech to Scottish business organisations, Edinburgh, 20 October 2009*

⁷ McKinsey&Company (2010), *Basel III and European banking: its impact, how banks might respond, and the challenges of implementation*, EMEA Banking, November.

Tav. 1 - Impatto a regime (2019) di Basilea III sul sistema bancario europeo (triloni di €).

	Prospettiva statica	Prospettiva dinamica*
Δ capitale: tier 1	1.1	1.2
Δ liquidità breve	1.3	1.7
Δ finanziamenti a lungo termine	2.3	3.4

* Ipotesi: payout pari al 50% dei ricavi, crescita nominale dei bilanci pari al 3% l'anno fino al 2019.

Secondo queste stime, peraltro coerenti con quelle elaborate da altri enti di ricerca, l'impatto sulle banche europee implica, in particolare: una riduzione del ROE di 4 punti percentuali rispetto al livello pre-crisi, un aumento del costo dei prestiti a breve di 70 punti base, un incremento del 60% del capitale (tier 1 / common equity) attuale.

3. Vengo ora alla presunta invarianza spaziale/nazionale.

Al riguardo, riprendendo e sviluppando considerazioni del Presidente dell'ABI in un'audizione alla Camera⁸, faccio riferimento – per esplicitare la tesi qui avanzata – a due sistemi bancari: quello del Regno Unito e il nostro, nella crisi 2007-2008.

Come illustra la Tavola 2, la morfologia dei due sistemi è profondamente diversa.

Il prima era (ed è) caratterizzato da grandi banche "innovative" e attive secondo il modello OfT. La vigilanza era (e non è più) affidata a un'unica autorità operante per principi, la FSA, la cui incompetenza e incapacità è stata autocertificata con particolare riferimento all'episodio Northern Rock.

Non, quindi, supervisione attenta, efficace, approfondita sulle singole istituzioni, ma attenzione meccanica al rispetto dei principi e dei parametri quantitativi, rilevatisi poi inattendibili.

Tav. 2 - Crisi 2007/2008. Sistemi bancari a confronto: Italia e Regno Unito.

	Raccolta al dettaglio % passivo	Prestiti alla clientela % attivo	Titoli in portafoglio % attivo	Leva	Sostegno pubblico alle banche % PIL
Italia	64	63	18	16	0
Regno Unito	?	?	?	40	65

Fonte: ABI, Audizione Mussari, Camera dei Deputati (6.10.10), King (2009) e elaborazioni dell'autore

⁸ Mussari G. (2010), *Basilea III e l'impatto sui finanziamenti bancari alle imprese italiane*, Audizione Camera dei Deputati X Commissione (Attività produttive), 6 ottobre.

Il sistema bancario italiano è, viceversa, “tradizionale”, radicato sul territorio, con quote di circa 2/3 della raccolta al dettaglio e di prestiti alla clientela sul totale del passivo e dell’attivo, rispettivamente.

La leva era pari a 16, contro 37 nel Regno Unito.

Anche al vigilanza, nella tradizione Banca d’Italia, era fondata su schemi che venivano considerati superati: attenta, competente, precisa, rivolta a una conoscenza approfondita delle singole istituzioni e delle specifiche problematiche.

Senza voler tracciare una precisa relazione di causa/effetto, occorre registrare che nel Regno Unito l’onere del sostegno pubblico alle banche si è commisurato a circa 2/3 del PIL del 2009. In Italia, l’onere è stato praticamente nullo.

Ancora, gli assetti finanziari in Italia, pur nel rispetto delle norme europee, sono meno distorsivi nel favorire gli impieghi finanziari a breve termine e le operazioni speculative su titoli, anche per la rigorosa prassi di vigilanza, come ha recentemente osservato il Ministro Tremonti⁹.

Basilea III, come la precedente versione, non riconosce la fondamentale diversità dei due modelli bancari sotto il profilo del rischio effettivo.

Più in generale si ripropone il problema del confronto con gli Stati Uniti. Come è noto, negli Stati Uniti non era stata applicata Basilea II alle piccole e medie banche (e in realtà neanche a quelle più grandi in maniera completa).

L’impressione che ho tratto da colloqui con esponenti del Senato americano e della stessa Riserva Federale, è che l’applicazione alle piccole e medie banche sia lungi dall’essere certa, mentre si punta su requisiti di leva, che nel contesto europeo potrebbero non mordere, come rileva lo stesso studio McKinsey.

Comunque negli Stati Uniti il canale finanziario è molto più rilevante di quello bancario nel finanziamento all’economia e quindi, anche a parità di condizioni, Basilea III ha un effetto maggiormente penalizzante in Europa.

Come ho osservato precedentemente, un’altra critica rilevante a Basilea III, e comunque al sistema di regolazione finanziaria che si sta creando, è quella di non intervenire sufficientemente per disciplinare il funzionamento dello shadow banking system. Anzi, man mano che si aumentano i coefficienti di capitale sugli intermediari controllati si sollecita l’arbitraggio regolamentare e operativo verso il sistema finanziario ombra. Il punto in questione è stato ampiamente sottolineato nel Rapporto de Larosière e ribadito dallo stesso de Larosière a seguito della pubblicazione degli elementi di Basilea III.

Altre notazioni critiche sono state formulate nelle pagine precedenti, riprendo e chiudo queste mie osservazioni la questione fondamentale del too-important-to-fail.

4. Le problematiche connesse all’azzardo morale del too-systemic-to-fail non possono ricadere esclusivamente su Basilea III, ma il modo in cui la questione (non) è stata posta e affrontata espone lo standard a una grave debolezza di fondo.

⁹ Tremonti G. (2010), *La crisi, l’Europa e gli investitori di lungo termine*, Forum “Towards a Sustainable Future: The Role of Long Term Investment”, Venezia, 28-29 ottobre.

Le indicazioni emerse a Basilea e a Seoul segnalano che “l’approccio integrato” alle istituzioni sistemiche (SIFI’s) è basato su presidi patrimoniali più elevati declinati nelle modalità di capital surcharges, contingent capital, bail-in debt.

Il problema è molto più complesso.

Quali sono le principali lezioni della crisi bancaria del 2007/2009 e dell’intreccio di debito sovrano e di banche sistemiche nel 2010?

<da completare>