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Rushing Basel could stifle future economic growth, say financial services firms

A rush to finalise and implement new rules on the amount of capital and liquidity that major financial institutions must hold could threaten economic recovery and stifle growth, financial sector representatives have warned regulators.

The Global Financial Markets Association (GFMA), which represents the major European, American and global financial institutions, has warned the Basel Committee that its plan to finalise proposed revisions to the Basel Accord by the end of this year will not give enough time to assess their wider economic consequences and make necessary changes. Implementing the revised rules prematurely, without taking their impact into account, could have far-reaching and unwelcome effects on the wider economy. GFMA is calling on the Committee to complete the basic framework of the new regime this year and to consult more widely on the exact capital and liquidity requirements once their impact can be properly assessed.

"We agree there is a need for change and understand the motivation behind the proposed timetable, but we are also aware that these rules are going to shape the financial landscape for many years to come," says Tim Ryan, GFMA’s chief executive officer.

"It is more important to get them right and implement them in a sensible order, and at an appropriate pace, than to get them wrong, quickly."

The proposed rules represent a significant shift in the regulatory and capital framework. It is vital that regulators understand the knock-on effects that the proposed new capital and liquidity regime would have on banks’ and other financial services companies’ ability to use their capital for lending and underwriting and the resulting impact on the global economy, says GFMA.

The Association therefore fully supports the quantitative impact study that the Basel Committee is undertaking and the broader macro-economic analysis that is being undertaken by the Financial Stability Board. It is important that this latter study take account of the wider regulatory reforms underway and that its findings are considered in the finalisation of the Basel rules

GFMA believes that the Basel Committee should therefore concentrate its efforts on setting the structure of the new capital framework this year and hold further consultation with domestic prudential regulators and the financial services industry on the specific capital and liquidity requirements once the impact review is completed.

"It is impossible for financial firms to fully assess the likely impact of Basel, because we don't yet know where the regulators will set the bar," adds Tim Ryan.

Initial indications suggest the implications of the proposed new regime could be significant, forcing firms to have to raise considerable capital, in addition to that raised in response to the financial crisis, over an extremely short period.
“A dash for cash, on a global scale, could be very expensive with knock-on effects on the cost of lending and other bank services for retail and business customers alike, as well as pushing up the cost of borrowing by governments. That cannot be helpful at a time when we need a functioning financial sector to support economic recovery and future growth.”

GFMA proposes that the Basel Committee spread the implementation of proposed changes over a longer period and ensure that all of the signatories – which include all major G20 countries – agree to implement it in the same way, at the same time, to avoid competitive and regulatory distortions.

GFMA has joined with the British Bankers Association and the International Swaps and Derivatives Association to write to the Basel Committee setting out their proposals for enhancing the stability of the financial system and their concerns about the current plans for implementing Basel III. Their letter can be found at www.afme.eu.

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Notes to Editors

GFMA joins together the common interests of hundreds of financial institutions across the globe. GFMA’s mission is to develop policies and strategies for global policy issues in the financial markets, thereby promoting coordinated advocacy efforts across its partner associations. GFMA is partnered with the Association for Financial Markets in Europe (AFME), the Asian Securities and Financial Markets Association (ASIFMA), and, in the United States, the Securities Industry and Financial Markets Association (SIFMA).

The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. The Committee’s members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. In December 2009, The Basel Committee announced consultative proposals to amend global capital and liquidity regulations and invited responses by 16 April 2010.