# “Softer” version of Basel III sparks comment in Europe

By Editor Test *Thu, Jan 10, 2013*

*Both cheers and Bronx cheers greeted a suggestion that Basel III's demands for greater bank capitalization might be "softened." MIT's Simon Johnson is against any softening.*

European pension experts say the recent launch of a “softer” version of the Basel III framework’s capital requirement rules for banks represents a recognition that stricter capital requirements could have unintended consequences for the global economy, according to a report in IPE.com.

The revision of the previous Basell III proposals includes an extension of eligible assets held by banks to count in their liquidity buffers. A less severe calibration for certain cash flows and a phasing-in arrangement from January 2015 to 2019 are also planned.

According to Michel Barnier, commissioner for internal market and services at the European Commission, the treatment of liquidity is fundamental, both for the stability of banks as well as for their role in supporting wider economic recovery.

“I welcome the unanimous agreement reached by the Basel Committee on the revised liquidity coverage ratio and the gradual approach for its phasing-in by clearly defined dates,” said Michel Barnier, commissioner for internal market and services at the European Commission.

Dave Roberts, senior consultant at Towers Watson, said, “The regulatory system must not be allowed to disrupt an economic recovery.” But he doubted that last weekend’s agreement to soften the liquidity coverage ratio under Basel III would comfort those with similar concerns around IORP II.

In the U.S., however, Simon Johnson of MIT’s Sloan School of Management blasted any attempt to soften regulations on banks, charging that soft regulations were the cause of the financial crisis. On his New York Times blog, he wrote, “Again the Europeans want to double down by letting the banks do want they want…

“This week the Basel Committee on Banking Supervision, as it is known, let us down – once again. Faced with renewed pressure from the international banking lobby, these officials caved in, as they did so many times in the period leading to the crisis of 2007-8. As a result, our financial system took a major step toward becoming more dangerous.”

Pension representatives stressed that the only link between Solvency II, the revised IORP Directive, and the regulatory framework for banks was based on Basel II regulation, which remains in use until Basel III is implemented.

Like Basel II, Solvency II organizes capital requirements under the “first pillar,” governance and supervision under the “second pillar “and disclosure and transparency under the “third pillar.”

It was pointed out that the change in regulation from Basel II to Basel III dealt with issues more relevant to banks than to insurance companies.

“Banks typically rely much more on shorter-term funding… funding liquidity and short-term access to capital markets is more important for banks,” said Paul Sweeting, European head of strategy at JP Morgan Asset Management. “Insurance companies are much more likely to use long-term financing and are not so much subject to the risk of reduced access to capital markets as banks would be.”

Even though Basel III may indirectly influence IORP II via the Solvency II regime, it is the longer-term capital adequacy requirements rather than liquidity that worry pension funds.

“Pension schemes and insurers have a very different liability profile to other financial institutions, and, hence, there is less focus within Solvency II on liquidity and more on the type of underlying assets held by institutions,” said Pete Drewienkiewicz, head of manager research at Redington.