Federal Financial Analytics, Inc.

Getting Basel Out of the Break-Down Lane

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WASHINGTON, D.C. – Today, Federal Financial Analytics, Inc. released the attached policy paper on the Basel III rules. Ambitious and idealistic as these prudential standards are, the assessment concludes that key markets are implementing the rules differently – and, in some cases, not at all. Should the Basel break-down continue and nations pursue their own financial-regulatory agendas, there is, we conclude, a serious risk of a renewed descent into lowest-common denominator rules, rules that now may be masked by seeming global standards that make it still harder to ensure that dangerous products or risky institutions are quickly remedied.

"In the years before 2008, we saw nations tripping over each other to lower regulatory standards, meaning that finding 'safe havens' for risky practice all too often became the key to profitability," said Karen Shaw Petrou, managing partner of Federal Financial Analytics. "Any repeat of that experience would be the most powerful driver to systemic risk I know," she continued.

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This paper details the structural and statutory reasons why the global capital, liquidity and resolution rules simply can't be applied across borders even if the rules were clear and consistent. It then goes on to recommend steps regulators and banks should take to prevent the slide to worst-case rules, focusing in part on how the trade-in-goods framework can be made to work well for financial services. This would lead to transparent criteria for cross-border banking, limiting contagion risk and creating positive incentives to best practice as the price of entry to desired markets.

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