Editorial

Basel III Rules Necessary to Curb Casino Banking

The Basel III rules evolved as the regulator's response to the global meltdown of 2008 and aimed at strengthening the global banking to prevent any fresh failures arising out of re-emergence of casino banking practices adopted in the last couple of decades need to be made effective from January 2013. These rules would require the banks to enhance amount of basic capital to safer levels. The European banks might require to triple the amount of basic capital they hold, in a bid to avoid any future tax payers' bailouts. Even the Indian banks would be requiring around Rs. 5 lakh crores' additional capital under Basel III. The share of equity capital has to be Rs. 1.75 lakh crores and non-equity capital to be around Rs. 3.25 lakh crores. The Government of India on its part shall have to infuse minimum Rs. 95,000 corers into the public sector banks to maintain its majority share holding under the Basel III. The US banks have been facing a $60 billion short fall for meeting the new capital requirements. The European banking sector, in aggregate need about€338 billion of additional equity.

In view of such huge capital requirements, needed to meet the Basel III requirements the European and American bankers are eager to seek postponements in the Basel III phase-in date of January 2013. The recent announcements made by the US Federal Regulators about the postponement of the implementation date for the new Basel III rules, from which it would revise and replace the current capital regulatory rules have created a confusion and certain quarters have alleged for creating mistrust. The European banks have also asked the European Commission to postpone the introduction of these tougher bank capital rules by a year to 2014, immediately after the US regulator told lenders that, they did not expect the new regulations to take effect in 2013. European bankers are more worried for the international competitiveness of the European banks vis-à-vis the anxiety for enhancing the capital. Within Europe as well there are differences. The Italian banks, deep in trouble are even not hesitating to call for a full stop on Basel III rules. In lack of consensus among the major countries and blocks, if the Basel III norms would be delayed indefinitely the banking sector would not be able to earn back the faith of the society world over. The capital requirements and other norms, prescribed in the Basel III are the minimum benchmarks to avoid the need for future bailouts from the tax payers' money.

The requirements of the capital levels under the Basel III would comprise - a common equity tier 1 capital ratio of 4.5 percent (newly introduced requirement), a tier 1 capital ratio of 6 percent (increased from the current requirement of 4 percent), a total capital ratio of 8 percent of risk-weighted assets (unchanged from the current requirement), and a tier 1 leverage ratio of 4 percent.

An early consensus needs to be evolved among the major nations and blocks for common implementation dates. There is an urgent need to seal-off any misadventuring into casino banking in future. Hence, unlimited postponement in implementation or dilution of the Basel III norms has to be avoided.

(Prof. Bhagwati Prakash Sharma)