Basel III? Capital, Leverage, Liquidity

Douglas W. Arner
Professor and Director
Asian Institute of International Financial Law
University of Hong Kong
www.AIIFL.com

Overview

- Introduction
- Capital
- Leverage
- Liquidity
- Conclusion

Introduction

- Test: would this have prevented the crisis?
- Capital
  - Build-up: complexity, arbitrage
  - Confidence

Capital

- Purpose
  - Cushion
  - Monitoring
  - Level playing field
- Components
  - Capital
  - Assets / weighting
  - Level / ratio

Basel I

- Capital: T1+T2
- Risk-weighted assets: credit risk
- 8 per cent
- Amendments
  - Netting
  - Market risk
  - Interbank claims

Basel II

- Purpose
  - Economic / regulatory / accounting capital
  - Risk management
- Structure
  - Pillar I: T1+T2+T3 / credit + market + operational (standard / IRB)
  - Pillar II
  - Pillar III
  - Credit risk mitigation: Legal

Basel III

- Capital: T1+T2
- Assets / risk: credit + market + operational + systemic
- Procyclicality
- Leverage
- Liquidity
- Plus: insurance / securities

Liquidity

- Liquidity coverage ratio: high quality liquid assets / net cash flows over a 30-day period >= 100%
- Net stable funding ratio: available stable funding / required stable funding > 100%

Leverage

- Capital: T1
- Total exposure

Conclusion

- Ratios: capital, leverage
- Accounting
- Coverage: Initial test
- Complexity: products / institutions
- Consolidated supervision: global v. subsidiaries
- Infrastructure: OTC markets
- Procyclicality / macroprudential tools