

Financial regulation

Barnier: "Europe will implement Basel III"

By Sarah Collins | Friday 27 May 2011

Internal Market Commissioner Michel Barnier has insisted that the EU will bring in a series of capital, liquidity and leverage rules outlined by the international standard-setter in Basel, despite criticism that the bloc was rowing back on the reforms. "I will not be swayed by various pressures," Barnier said in response to press reports that the EU was considering diluting the reforms. "Europe will implement Basel III: we have said it before and I confirm it to you today, the Commission's proposals to implement Basel III [Capital Requirements Directive - CRDIV] will respect the balance and level of ambition included in Basel III." Banks have hit out at a third round of capital rules unveiled by the Basel Committee on Bank Supervision last year, which will force them in future to hold 7% of their risk-weighted assets in cash to absorb potential future losses. The rules also dictate how much cash banks will have to hold against short and long-term debts, and set a limit on how much they can borrow (leverage) to make gains. The financial sector says the new requirements will force them to retrench and prevent them from lending to businesses and households.

The Commission is due to publish its fourth revision of the capital requirements directive before the end of the year. The proposals - which will come in the form of a directive and a regulation - will bring the Basel standards into EU law. EU sources have said that the draft will contain added "flexibility" to allow regulators to increase the ratios if warranted. The rules will apply to all of the EU's 8,000-odd banks. The US applies the previous round of Basel standards - Basel II - only to its largest institutions.