

Basel 3: return of the Regulator

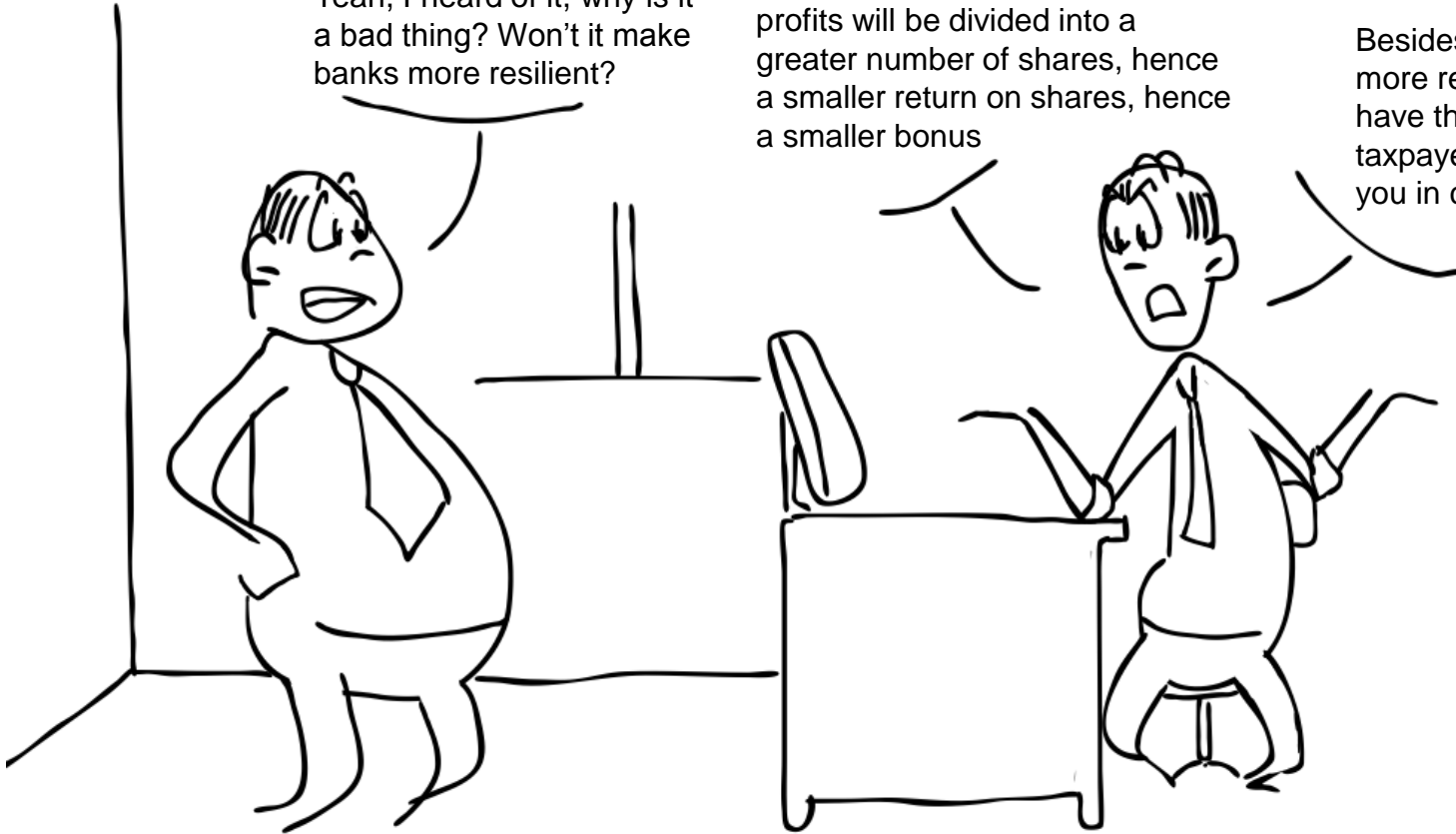
At the head office of bank One-Stop-Shop



Yeah, I heard of it, why is it a bad thing? Won't it make banks more resilient?

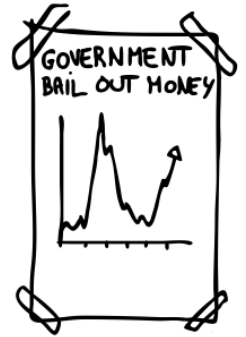
Course it will but that's not the point, it means that banks will have to raise new capital, and profits will be divided into a greater number of shares, hence a smaller return on shares, hence a smaller bonus

Besides who needs to be more resilient when you have the government and taxpayer money backing you in case of trouble?



Right, that sucks, but at least
our job is safe, as banks are
less likely to crash

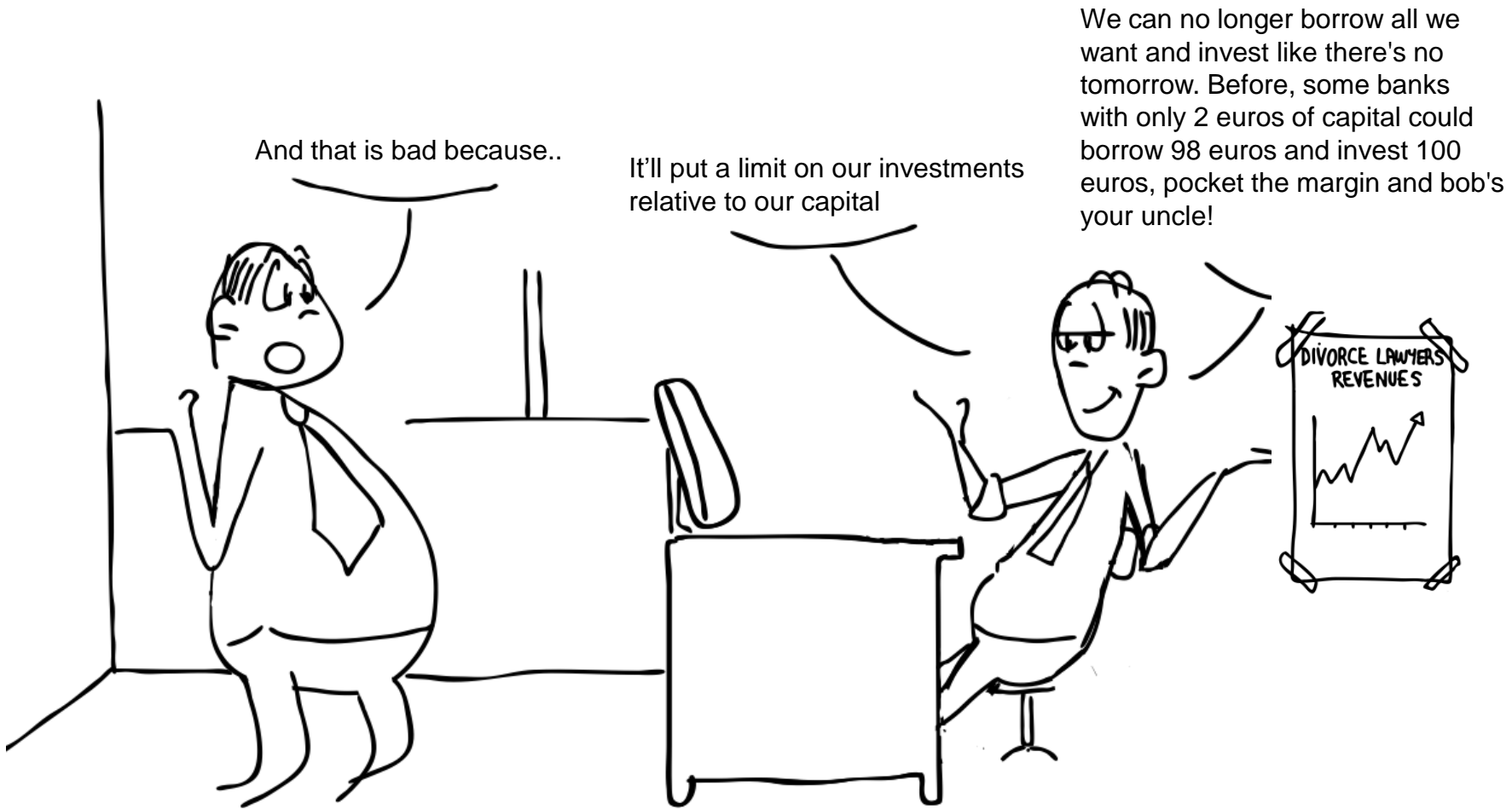
Not even! Even with the new capital rules,
if banks' investments decline by only 5%
they go bust!!



Right, so the new capital requirements are not high enough to make banks really safe, we will get lower bonuses, and my wife wants a new 4X4, any more good news?

Oh yeah here is another one: the regulator wants banks to disclose publicly their leverage, which is the ratio of total assets divided by capital, and put a cap on it!





Hold on, 2 euros of capital and an investment of 100? That's a leverage of 50 times! If you lose only 2% on your investment you go bankrupt, that's insane!

Now you sound like a regulator.. Remember we cannot go bankrupt, if we're in trouble we just tell governments that if they don't bail us out, depositors will lose their savings, corporates won't get loans etc... Works like a charm every time!

..but with this leverage cap, we will now need to have at least 3 euros to lend 100, what a bummer ! ..Another dent in my condo down payment..



And the disclosure thingy?

Ah! Can you imagine they also want us to publish our leverage ratio... You think investors would lend us money if they knew how much rubbish we have on our balance sheet?

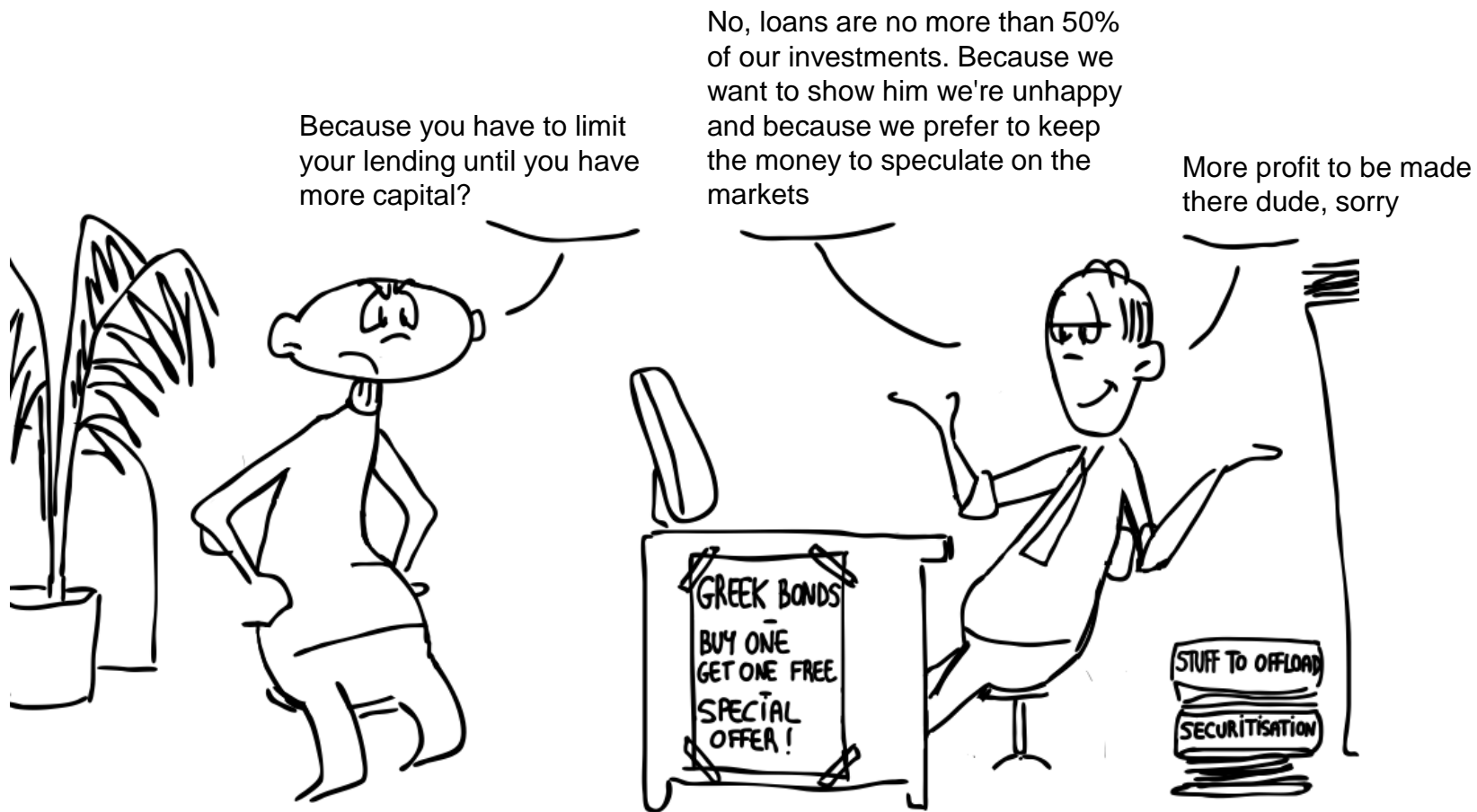
Am telling you, it's time to take a sabbatical and go make a round the world trip till the dust settles



At bank One-Stop-Shop's local branch







But isn't your job to lend money to corporations and individuals?

Well that's boring banking, much more fun to play on the stock market, and repackage stuff to sell it to dummy investors

And how do you think I paid for my midlife crisis sports car and the kids' holidays in Barbados?



So what do I do?

You tell your wife it's the economy

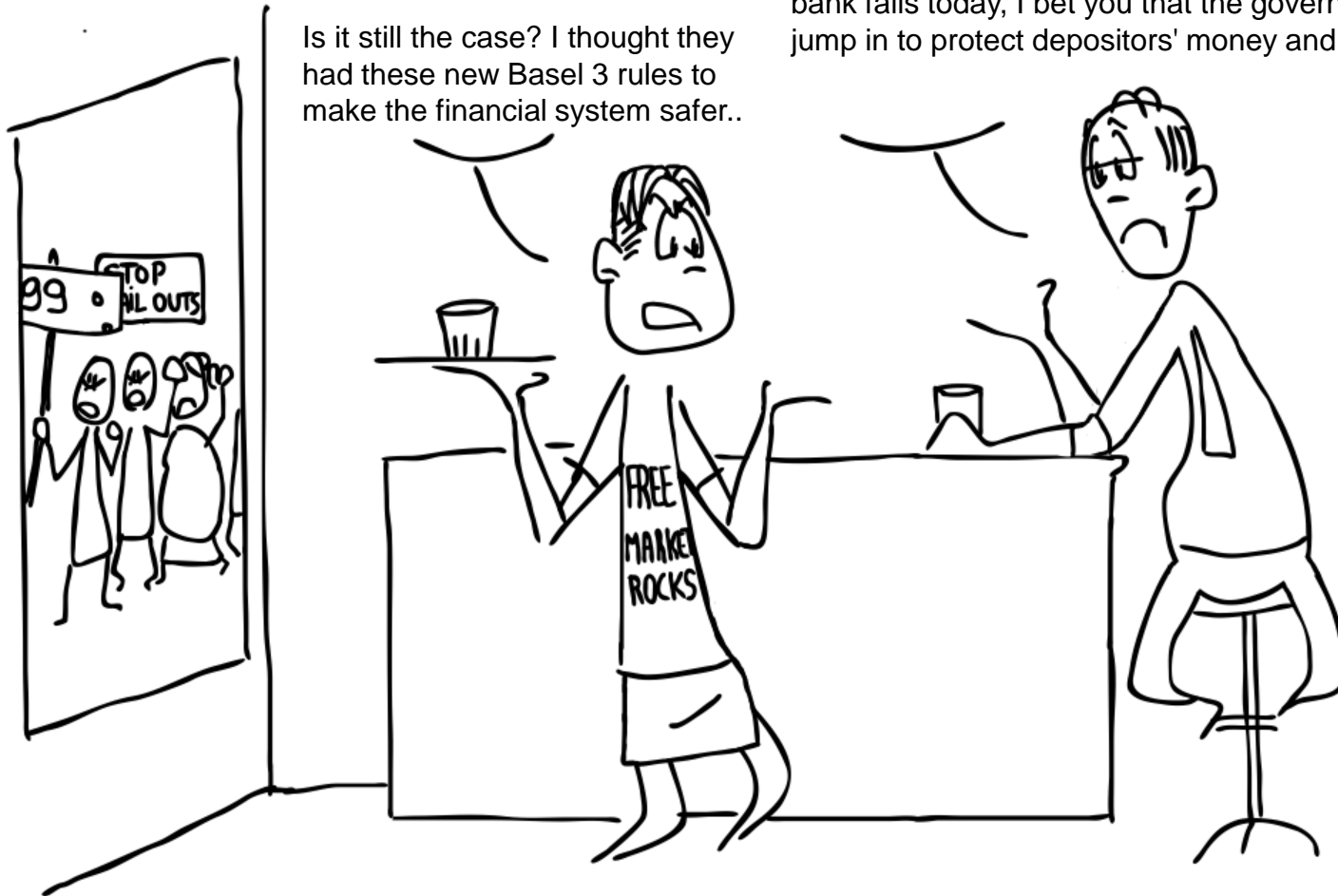


At the local pub..



Well yeah, but the new rules just make individual banks stronger by requiring them to have more capital. They don't address the systemic risk and moral hazard. If a bank fails today, I bet you that the government will still jump in to protect depositors' money and loans

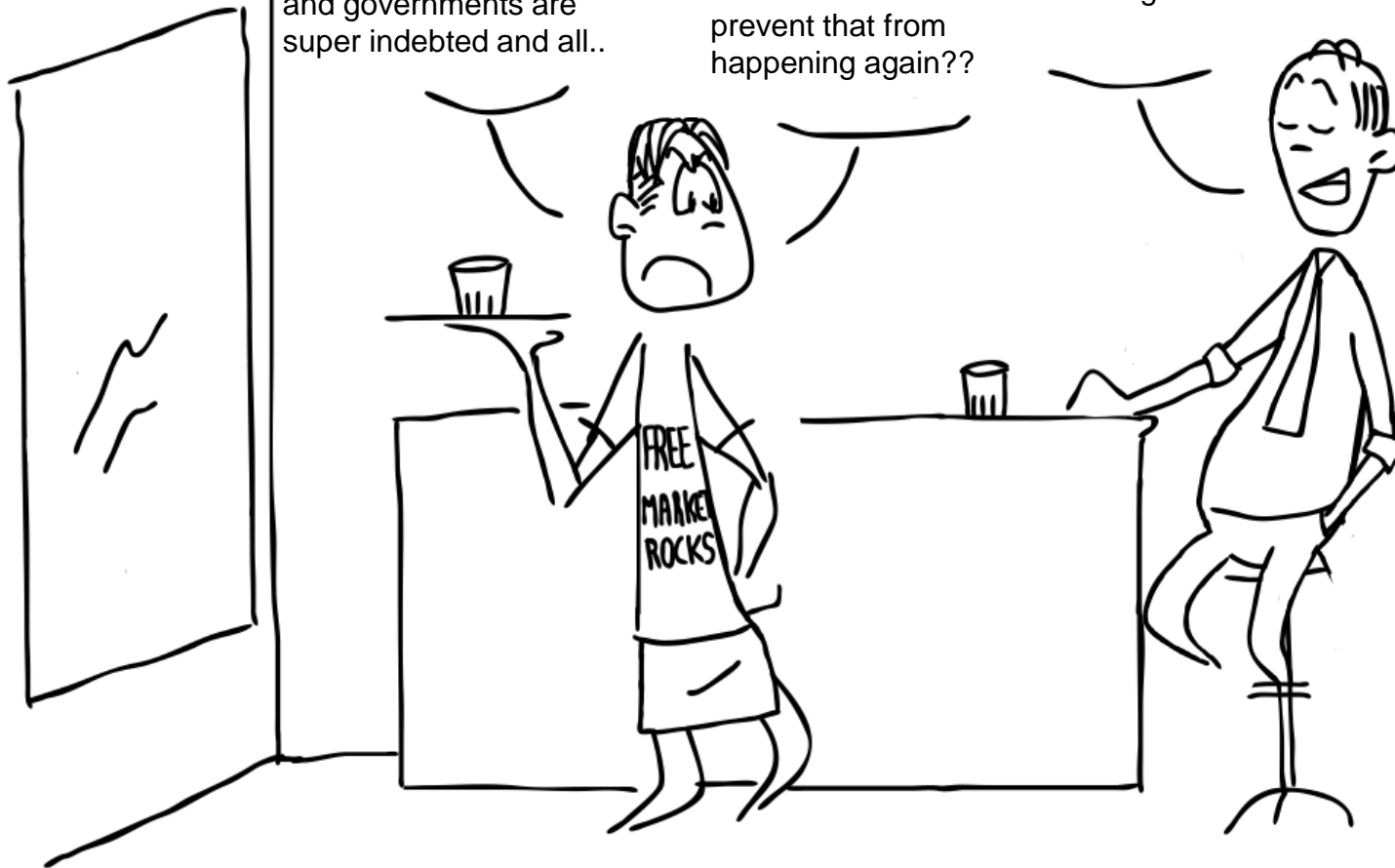
Is it still the case? I thought they had these new Basel 3 rules to make the financial system safer..



That doesn't sound right,
so the government lent
billions to banks, now
banks make money again
and governments are
super indebted and all..

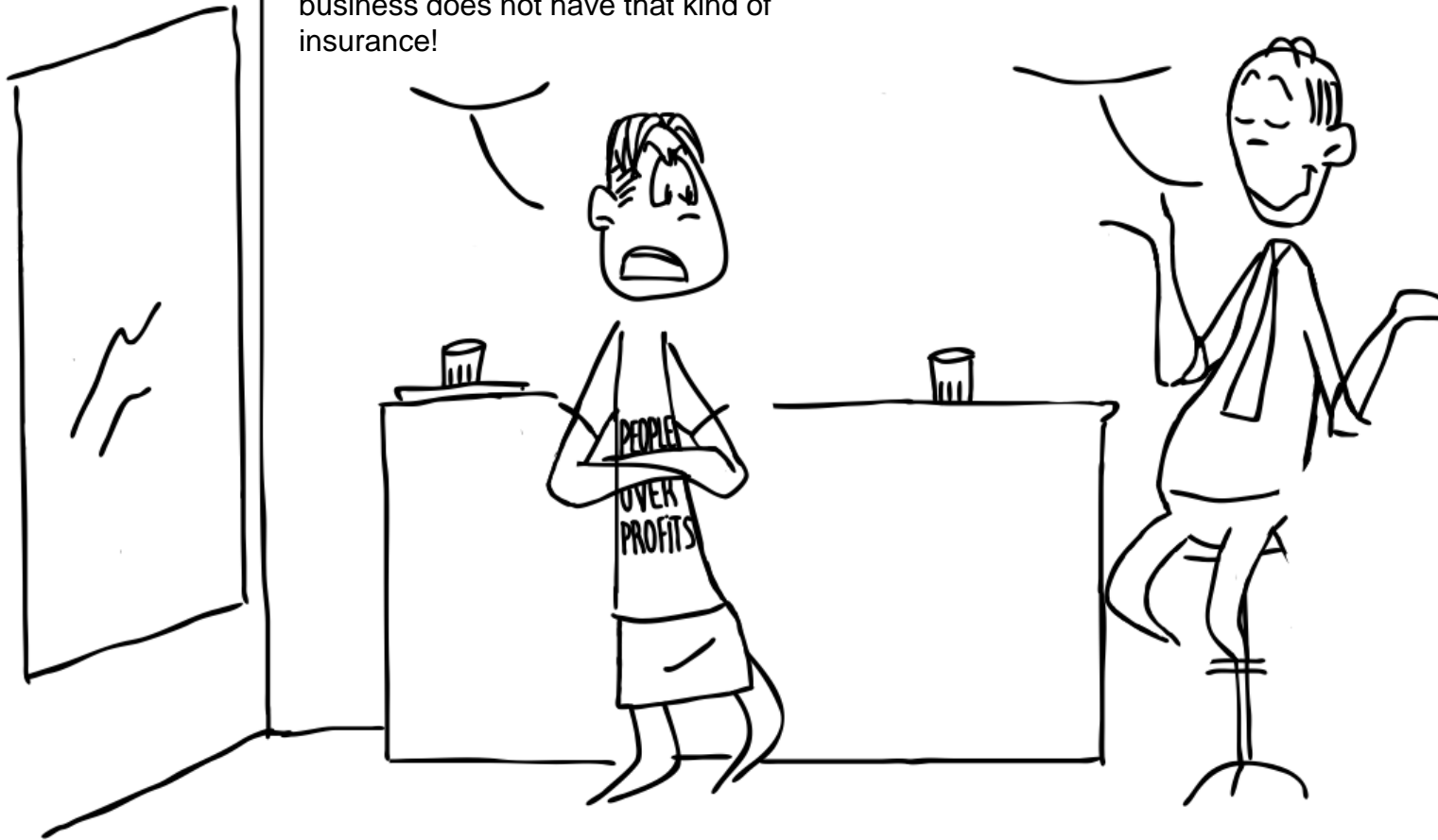
..And you're saying
that nothing has
been done to
prevent that from
happening again??

Well it's been hard work to prevent that,
am telling you. We weren't gonna let our
sweet government insurance go away



But that's rubbish, any other business does not have that kind of insurance!

Didn't you listen to the news? We're special!





Special my foot, why should I pay
with my taxes for your mess?

We just need to tell the governments that if they don't
help us, it will affect the economy, they will lose
millions of jobs, blablabla..



Well if enough people tell their elected officials that they are sick of it, things might change!

I'd rather my taxes be used for my kids' education than for your new beach house.
Sorry.



People have no sense of humour



THE END

This is a light-hearted attempt to explain certain issues with Basel III, the text is purely illustrative. For a fuller analysis, see Finance Watch's February 2012 position paper on CRD IV, ["To end all crises?"](#).

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