Basel 3: return of the Regulator
At the head office of bank One-Stop-Shop
Hey wassup, why the gloomy face?

You read the news about the new Basel 3 regulation? The regulator wants to increase bank capital from 8% to 10.5!! These guys are nuts!
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!
And that is bad because...

It'll put a limit on our investments relative to our capital.

We can no longer borrow all we want and invest like there's no tomorrow. Before, some banks with only 2 euros of capital could borrow 98 euros and invest 100 euros, pocket the margin and bob's your uncle!
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
I would love to help you but we are unofficially on strike.

I would like a loan to extend my shop.
What do you mean on strike??

The regulator wants to force us to have more capital and limit our loans and investments, and we are not happy, so we won't lend.
Because you have to limit your lending until you have more capital?

No, loans are no more than 50% of our investments. Because we want to show him we're unhappy and because we prefer to keep the money to speculate on the markets.

More profit to be made there dude, sorry.
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..
More protests against banks, what do they want? “Stop moral hazard”, what is that again?

It’s when banks should go bankrupt but the government saves them with taxpayer money.
Is it still the case? I thought they had these new Basel 3 rules to make the financial system safer..

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.
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..
So what would it take to stop this moral hazard?

Oh, they probably would have to separate retail banks from investment banks, but forget this idea. Ain’t gonna happen

Any idea how much we spend on lobbying?
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
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?”.