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Plans by global regulators to compel banks to set aside billions of dollars in extra capital to cope with future crises are to be pared back after intense lobbying by the industry. After wrangling over the details of a regulatory overhaul published six months ago, a consensus on the Basel committee is suggesting that its proposals be thinned down. A draft of the latest thinking of the committee, set up to oversee global financial regulation, is to be presented at this weekend?s G20 summit in Toronto. The most significant change to the proposed reforms concerns the committee?s recommendations on the volume of liquid funds that banks should hold to protect them against another financial crisis. Proposed short-term emergency funding measures will go ahead. But the committee is likely to shelve the idea that banks should be forced to maintain a longer term ?net stable funding ratio? that aligns the maturity of their assets and liabilities. That contentious proposal, fiercely opposed by the banks, could be replaced by an alternative system of oversight, said officials close to the drafting process. Bankers said that the modified blueprint would prevent an excessive hike in funding costs and in borrowing charges for customers. Some executives had argued that the liquidity measures outlined six months ago could cost the industry up to €5,000bn in additional costs. Analysts had also calculated that the Basel III reforms, were they implemented in conjunction with new taxes around the world ? such as the liability tax announced by the UK government this week ? could have cut a typical bank?s return on equity from 20 per cent to 5 per cent. Scaling back its proposals would allow the committee to publish a basic foundation for the new rules on time, even though disagreements on some of its most contentious proposals on capital, liquidity and leverage are unresolved. The changed stance, however, which follows intense lobbying by the banks, will be criticised by hardline reformers as a retreat. Other issues, such as the capital treatment of banks? partially owned subsidiaries and pension deficits, may be the subject of only minimal international rule making, at least in the short term. More radical reformers worry that delegating too much to national regulators will make a nonsense of efforts to create a globally co-ordinated approach. ?The Basel committee is trying to give a lot of freedom to individual countries,? said one senior Spanish banker. ?But then, you just have a mess, and no level playing field.?

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[2] http://www.asymptotix.eu/category/tags/basel-iii