BarCap on Basel III and ?tier one? equity capital

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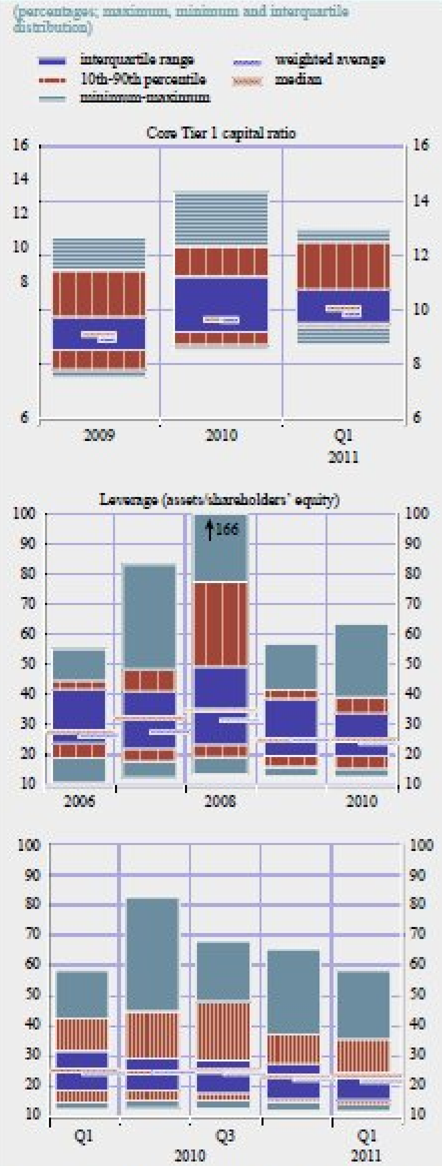
Thursday, 19 August 2010 | Finance - Banki...

Chart 4.4 Euro area LCBGs' core Tier 1 capital ratios and leverage multiples



Sources: Individual institutions' financial reports and ECB calculations.
Notes: Core Tier 1 capital ratios are based on available data for a sub-sample of LCBGs that disclose such figures. The quarterly figures are based on data for a sub-sample of LCBGs for which results for all quarters of 2010 and the first quarter of 2011 were available. Core Tier 1 capital definitions differ across the banks in the sample.

Big US banks should be able to meet tighter global capital requirements without having to raise substantial amounts of new equity, according to calculations by Barclays Capital.

The analysis by BarCap?s debt capital markets group estimates that the 35 largest US banks will have to come up with half as much new capital as had been expected following last month?s rewrite of proposed requirements by the Basel Committee on Banking Supervision

Analysts at Nomura calculated earlier this month that the top 16 European banks would also gain a sizeable, though slightly smaller, benefit. The numbers are likely to revive complaints that the reforms have been softened too much in the face of lobbying by banks.

The committee in July made significant changes to the definition of what banks could count toward highest-quality ?tier one? equity capital and effectively trimmed the amount of liquid assets they would be required to keep on hand.

The banks had argued ? and some regulators agreed ? that a tougher package could impede the still-patchy economic recovery by crimping new lending.

Two separate studies released on Wednesday by the Basel Committee and the Financial Stability Board [1], however, concluded that tightened capital and liquidity rules would have only a modest impact on world economic growth patterns if they were phased in over time, as planned.

A one percentage point increase in bank tangible equity capital ? capital that cannot be withdrawn in the event of a crisis ? would lead to a 0.2 per cent average decline in global output, the studies found.

Commentators on both sides of the Atlantic see the July changes to the Basel proposals, commonly known as Basel III, as a big victory for lenders.

BarCap, for example, estimates that the 35 largest US bank holding companies will need to come up with $115bn in new equity or retained earnings to bring the ratio of their equity tier one capital to risk-weighted assets ? a key measure of financial strength ? to 8 per cent under the revised rules.

That is about half the $225bn in new capital the biggest US banks would have had to raise under a tougher draft of the rules circulated in December, said BarCap?s Tom McGuire, whose unit did the calculations.

Similarly, Nomura analyst Jon Peace calculated that the top 16 European banks would need to raise €200bn ($257bn) to restore capital removed by the reforms, down from €300bn under the December rules.

The difference comes from a series of compromises allowing banks to keep tax credits, mortgage servicing agreements and other assets in their calculation of their tier one capital.

Should regulators decide in the autumn that banks need to meet a 6 per cent ratio rather than 8 per cent, the 35 US banks would need to raise just $8bn, BarCap said.

Tags: Basel III [3], CRDIV [4]

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