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Central Bankers Defend New Capital Rules

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WASHINGTON—Central bankers participating in weekend meetings of the International Monetary Fund rejected concerns that proposed rules to raise bank capital requirements will weigh on the global recovery, and said they are pressing ahead with efforts to limit the contagion risks from large, complex institutions often dubbed "too big to fail."

Their assurances come amid mounting warnings from private-sector bankers of the economic costs of imposing too many regulations on them.

"We need to avoid a process where requirements on banks keep growing to the point where their ability to contribute fully to economic growth is choked off," said Josef Ackermann, chief executive of Deutsche Bank AG.

"Some argue that the new standards are too severe" by restraining credit in the early stages of economic recovery, Federal Reserve Bank of New York President William Dudley said in a speech on Sunday. Though the reforms, known as Basel III, "do impose some real costs" on the financial system, "I believe the concerns over the costs are exaggerated," Mr. Dudley said.

Under Basel III, internationally active banks will have to hold capital equal to at least 7% of their assets, much higher than current standards.

Some rules start to take effect in 2013, but most banks will have until 2019 to comply.

Officials also plan new requirements on the amount of liquidity banks must hold, but plan a later phase-in date amid uncertainties over the effect on certain financial markets. Bankers agree that changes are needed.

But Mr. Ackermann and other executives speaking at a conference sponsored by the Institute for International Finance on Sunday expressed concern that Basel III won't be adhered to by individual nations.

There are already signs, Standard Chartered PLC Chief Executive Peter Sands said, that a number of countries are considering add-on costs and that some investors are pushing for an accelerated implementation schedule.

"If we get this wrong, the stakes for the world economy cannot be exaggerated," said Mr. Sands.

Bank of Canada Gov. Mark Carney defended the rules, saying at the IIF conference on Saturday that they are necessary because the banking model of advanced economies "had zero credibility" two years ago.

Central bankers said they expect leaders of the Group of 20 developed and large emerging countries, known as the G-20, to approve the Basel III measures when they meet next month in Seoul.

They also expect to submit proposals to G-20 leaders dealing with the too-big-to-fail issue, which wasn't addressed in the Basel III proposals, by the end of the year.

Philipp Hildebrand, head of Switzerland's central bank, said at the IIF conference that for these institutions "there was always going to be something more" beyond the Basel III rules. Swiss officials said last week that they want their two largest banks, UBS AG and Credit Suisse Group, to hold capital equal to 19% of their assets, a much higher level than under Basel III.

Basel Committee Chairman Nout Wellink, who also heads the Dutch central bank, said a "systemic surcharge" is under consideration more broadly to make sure systemically important firms can absorb losses, though it remains unclear exactly which firms fit that category. Two factors behind such a levy, Mr. Dudley said, are the funding advantages that large firms might gain by having a different resolution process than smaller firms and the large costs associated with the failure of a large, complex firm.

"There are super-systemic institutions and systemic institutions and we are still discussing whether this surcharge should be a surcharge for the super-systemic institutions, the global institutions," Mr. Wellink said in an interview. No decisions have been made, Mr. Wellink said, though he expects that topic to be on the G-20 agenda next year.

"These institutions ought to have more loss-absorbing capacity than what is agreed under Basel III," said Bank of Italy Governor Mario Draghi, who heads the Financial Stability Board, at a news conference Sunday.

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