Andreas Dombret: "Basel III - Are we done now?"

Statement by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, Statement by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the Institute for Law and Finance Conference on Basel III, Frankfurt am Main, 29 January 2018.

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Thanks Nicolas, it’s a great pleasure to contribute to this panel. And, on behalf of the Bundesbank, I am happy to see that so many outstanding experts accepted our invitation.

Please let me start with a confession: I strongly support the Basel III finalisation package – in these times, a global minimum standard is a crucial (and noteworthy) success. It contributes to stabilising the global financial system and prevents regulatory arbitrage. When talking about Basel III, many banks or lobbyists may think: “Things are never as bad as they seem.” Of course, they are hoping for of a less strict implementation of the Basel standards. But I have to say that I, in their stead, would not cherish these hopes.

Looking ahead, all Basel Committee member jurisdictions must do everything in their power to ensure full implementation. But as important as Basel III is, we should not forget what it was made for — and what not. The Basel III standards are, first, minimum standards for, second, internationally active banks. Let me say a few words about the first point: Since Basel standards are minimum standards, a country may decide to set stricter requirements. The second qualification of the Basel III standard is that it is for internationally active banks. As such, jurisdictions are free to apply a different set of rules to smaller, only nationally active banks that pose no threat to international financial stability.

In sum, then, we should focus on truly global aspects, like regulating globally active banks, while leaving it to nation states to carry out those tasks that they are better suited to take care of, for example the regulation of locally active banks. In this sense, let’s not forget the former governor of the Bank of England, Mervyn King, who said: “Banks are global in life, but national in death." To make one thing quite clear: There is no alternative to global standards, but within their implementation, we must not forget that a “one size fits all” approach does not always reflect national different banking systems. So, in sum: Yes, we are done with Basel, but we should lose no time and start implementing it.

And one point is of crucial importance in my mind: After having implemented Basel III, we need a regulatory break — because, yes there is regulatory fatigue; but do not get me wrong — this is no ticket for regulatory capture and deregulation. As tired as banks are of new regulation, as tired are we regulators of their (often unsolicited) lobbying efforts. In that sense, I clearly expect from the industry to adapt their business models to those new rules. The comparable positive reaction the stocks markets showed in face of the Basel compromise is in my view a sign for the value of regulatory certainty – so let’s go for it. Therefore, let me recall the objective of Basel III, which is to reduce RWA variability, and not to raise regulatory capital on average. We still strive for that objective in the implementation period that will follow. So, the answer to our leading question is: Yes, we are done now with Basel III.

Therefore, all discussions about the outcome – or the desired outcome – are a waste of time. What we need to discuss is how to implement Basel III in a way that is as close to the agreed standards as possible, but, at the same time, also reflects national particularities. And when this is done, we can have our regulatory break to see how all the reforms interact with each other and whether they all work as they should. In the meantime, let’s stop complaining about a one or two percent higher output floor, but let’s start talking about the real stuff that may endanger our financial system. Cyber crime is only one catchword amongst many challenges that lie ahead.