IMF adds weight to big bank surcharges

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The International Monetary Fund on Tuesday urged US and European regulators to consider imposing higher customised capital requirements on “systemically important” banks deemed “too big to fail”.

The discussion of capital surcharges for big banks will prove controversial on Wall Street and in London, where bankers have argued that large institutions should not be penalised by regulators because of their size.

US and European governments have pledged to overhaul regulation to avoid a repeat of the huge public bail-outs of troubled institutions from Citigroup to Royal Bank of Scotland seen during the financial crisis.

Surcharges are among a series of ideas – alongside “living wills”, designed to force big banks to pre-plan their own demise, and the creation of cross-border supervisory colleges – which regulators argue will make banks safer. Several countries, including the US, UK, France and Germany, are also keen on a global tax on banks, according to their size, with the IMF due to give its view on such a levy later this month.

Although the IMF said on Tuesday that it was “not necessarily endorsing” the surcharge concept, its 27-page assessment of the theory adds further weight to an idea that is gaining international momentum. The Basel Committee on Banking Supervision, which oversees international regulation, said in December that it was “evaluating the pros and cons of a capital surcharge for systemically important banks”. It is also considering a liquidity surcharge, which would require big banks to hold proportionately higher levels of liquid funds.

The IMF is the first organisation to have published a methodology for capital surcharges.

The fund argues that without strong tools to prevent banks from taking outsized risks, the proposed creation of “systemic regulators” in the US and Europe would do little to protect the world from another devastating banking crisis.

Under the proposals discussed by the IMF, regulators would rank banks according to the probability they might fail in a crisis and the risk they pose to the rest of the domestic and global financial system.

The ratings, which would be kept confidential to prevent a run on the weaker banks, would be used to determine how much more capital each institution would have to keep on its balance sheet in order to lessen the risk of a systemic failure.

Under one of the IMF’s calculations, riskier banks would have to set aside an average 1 per cent of their risk-weighted assets, on top of other capital requirements, to account for their systemic importance.

Fonte: Financial Times, London, Apr. 13th 2010, Companies, online.