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Global Risk Watch Newsletter

Will the reality TV show becomes your new reality?, etc.

Global Risk Watch Vol.22
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2. Overview of Development in Financial Regulations (Trends & Topics)

 # The extension of Basel III agreement and impact of new administration in the US (Yuri Nakano, Senior Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

The Basel Committee announced to postpone the Group of Central Bank Governors and Heads of Supervision meeting (GHOS, a meeting to formally approve Basel III regulations) scheduled to be held in early January, 2017. In the press release stated that “more time is needed to finalise some work, including ensuring the framework's final calibration, before the GHOS can review the package of proposals”. In particular, various media reports suggest that setting the level of output floors for credit risk has yet to reach a consensus. The long standing disagreement over credit risk measurement approach was between Japan/ Europe and the US. In the case of setting output floors, Germany has remained in a hardliner stance opposing in this regard. Before the Basel Committee meeting convened on November 28th and 29th in Santiago, the Bundesbank executive board member Andreas Dombret delivered an ultimatum to other major financial regulators including the US that Germany will not accept a deal “at any price”, and it will walk away from Basel III talks unless its key demands are met.

The US has been calling for more stringent rules up until now, whilst the new Trump administration has been inaugurated into the oval office which is supports financial deregulation. In the light of the new Trump administration, the stance of US on financial regulations may change in the Basel Committee meeting and other international committees. The choices of key personnel appointments of the financial regulatory authorities under Trump presidency may reflect the President’s intention and also determines the new stance of US on financial regulations. Currently, four US authorities; FRB (Federal Reserve Board), Federal Reserve Bank of New York, OCC (Office of the Comptroller of the Currency), and FDIC (Federal Deposit Insurance Corporation) are the members of Basel Committee. Among these key posts, two out of seven FRB governor seats are vacant, as well as the new Vice Chairman for supervision position that was created by Dodd-Frank Act to elevate the status of bank examination at the central bank. Moreover, Comptroller Curry's term at OCC will expire in April, and FDIC Chairman Gruenberg's term will also come to end in late 2017. President Trump has been filling key positions including Treasury Secretary, NEC (National Economic Council) Director, and SEC (Securities and Exchange Commission) Chairman with former wall street veterans. President Trump and the Republican Party is extremely objective to the Dodd-Frank Act that paved the way for the strengthening of financial regulations since the Global Financial Crisis. Under the new administration, it is likely that President Trump will support financial deregulations, thereby continue to replace existing key personnel that pushed forward the financial regulations strengthening under the former Obama administration with people who are close to the industry. Should the stance of US change, due to revamping key members who demanded stringent regulations at the Basel Committee, Basel III may be agreed at a much more lenient level than initially anticipated. Going forward, the selection of key candidates for positons at the financial regulatory agencies and the discussions at the Basel Committee meeting to be held on March 1st and 2nd are to be observed carefully.
