Britain gives backing to E.U. finance watchdogs

BRUSSELS

BY JAMES KANTER

Britain's chancellor of the Exchequer, George Osborne, signaled the government's allegiance to the European Union on Tuesday, endorsing a clutch of new watchdog agencies to supervise financial activities across the 27-country bloc.

But Mr. Osborne insisted that he had successfully defended Britain's fiscal sovereignty and shielded the country's important financial sector from overly burdensome E.U. regulation.

"We welcome the creation of architecture at the European level that can coordinate national supervision," Mr. Osborne said in Brussels, where he was meeting with his fellow E.U. finance ministers.

"But we were obviously concerned" he said, "that the interests of the Briti taxpayer were protected, that the voice of London was heard, and that we did nothing that would undermine the competitiveness of Europe."

The E.U. finance ministers agreed Tuesday to create agencies overseeing insurance, banking and market trading, as well as a European Systemic Risk Board to watch for asset bubbles and other dangers to the financial system.

Those measures, which still need approval by the European Parliament before the agencies begin work in January, represent the biggest step the European Union has taken so far to prevent a recurrence of the debt and banking crises that have threatened the region's economic stability.

Governments had shown the willingness to "put behind national interests for the sake of Europe," said Wolfgang Schäuble, Germany's finance minister.

While supporting the Europe-wide effort on risk management, Mr. Osborne also dug in his heels on an issue dear to his Conservative Party — and to Margaret Thatcher when she was prime minister in the late 1970s and 1980s — by insisting on preserving a rebate to the British Treasury on agricultural spending worth about £3 billion, or around $4.6 billion, each year.

The rebate is supposed to make up the shortfall between what the U.K. pays toward the E.U. budget and what it gets back, but a senior member of the European Commission said in recent days that the British rebate was no longer justified as Britain was more prosperous than during the 1980s. Mr. Osborne said the people who called the rebate into question would "be wasting their time."

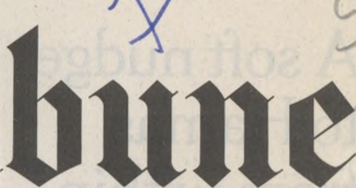
Mr. Osborne also acknowledged that Britain would need to defend its interests at the European Systemic Risk Board in the coming years. The agreement reached Tuesday appoints the president of the European Central Bank, which oversees monetary policy in the euro zone, as the leader of the risk board for the first five years of its operations.

Mr. Osborne said the selection process for the board would be reviewed in the next three years, opening up the possibility that someone from Britain, which is outside the euro zone, could one day hold the post.

There was less clarity Tuesday about proposals for an E.U. system of bar taxes to help protect taxpayers fro. footing the bill in future crises.

Ministers failed to agree on that measure, with the British insisting on the right to do what they wanted with the revenue and Germany seeking to channel the revenue into a network of emergency funds.

Ministers also failed to agree on two other forms of taxes on financial transactions and on financial activities: a levy on share and bond purchases, and on banks' earnings and pay.



GLOBAL.NYTIMES.COM

Global pact to tighten bank rules looks near

FRANKFURT

Committee is expected to recommend much greater capital reserves

BY JACK EWING

Regulators from the world's largest economies appear close to agreement on tightening rules designed to prevent future financial meltdowns, prompting renewed warnings from the banking industry that economic growth could suffer if institutions were required to raise more capital to insulate against market shocks.

The Basel Committee on Banking Supervision, which includes representatives from 27 countries including the United States, China and members of the European Union, met Tuesday in Basel, Switzerland, and will present recommendations to heads of central banks and national banking regulators at meetings beginning Sunday.

The proposals will then go to the Group of 20 countries when they meet in November.

After facing criticism that proposals announced in July were too easy on banks, the Basel Committee may double the amount of high-quality capital, like their own shares, that banks would be required to hold in reserve, the German newspaper Die Zeit reported, citing a copy of the proposals it had obtained.

The committee may also recommend that banks be required to increase their reserves even more during boom times, to as much as 16 percent of assets, so that they are more able to withstand a sudden collapse in confidence, like the one that followed the bankruptcy of Lehman Brothers in 2008.

The Association of German Banks has said that the new requirements could cut lending by banks in the country by €1 trillion, or $1.27 trillion, as banks struggled to raise the additional capital.

"Going too far will jeopardize economic recovery and the positive labor-market trends," Hans-Joachim Massenberg, the banking association's deputy general manager, said in a statement Monday. His warnings echoed those made in recent months by other banking groups.

Others said that such concerns were overblown. Nicolas Véron, a senior fellow at Bruegel, a research organization in Brussels, said U.S. banks were able to raise additional capital within a few months of being pressured by regulators last year to do so. "The economic effects are going to be less dire" than banks maintain, he said.

A study released by the Basel Committee last month argued that, while tighter capital requirements might temporarily dent growth, in the longer term they would help to support the global economy by reducing the risk of financial crises.

After the central bank chiefs consider the proposals Sunday, the rules will be submitted to the G-20 countries when they meet in Seoul in November. It will then be up to individual countries to write the regulations into law. The United

BANKS, PAGE 17

Pact to tighten rules for banks appears near

BANKS, FROM PAGE 1

States was slow to adopt the last set of such regulations, known as Basel II.

While media attention tends to focus on the overall ratios of capital to leverage and assets, much of the debate in Basel revolves around arcane definitions of what kinds of capital banks may apply to meet the regulatory requirements. For example, one issue is how much banks might be able to count stakes in other financial institutions when calculating their capital.

Mr. Véron said the Basel Committee had achieved more than he expected, but added that rules alone would not be sufficient to prevent banks from taking on too much risk. Banks should be required to disclose much more about what kind of risk they are exposed to, he said.

"The question is how reliable and verifiable the calculation of capital will be," Mr. Véron said, noting that European banks disclosed their holdings of Greek and other questionable government debt in July only under pressure from regulators. "What is really important is to have a quantum leap in terms of the transparency of the data and numbers on which these calculations are based."

Another issue is how quickly the new rules take effect. Die Zeit reported that some provisions could go into force as early as 2013, with the rest phased in through 2018.

Germany has sought more time for its banks to adjust to the new rules and raise the necessary capital, Reuters reported. The country's public-secto Landesbanks are considered among the weakest of Europe's large institutions, and some of their capital reserves might not qualify under the new rules, requiring them to raise more money.