



REINING IN THE BANKS

The proposed Basel III rules are the toughest set of global banking regulations ever put in place, forming the cornerstone of the Group of 20's efforts to prevent another major financial crisis. Reuters explains how the rules will hit the financial sector and what's next to come.

SEPTEMBER 2010



REUTERS

▶ **WHAT'S IN BASEL III**

- THE NEW RULES
- IMPLEMENTATION KEY TO SUCCESS

3
5

▶ **THE IMPACT**

- BREAKINGVIEWS: BASEL BUFFERS COULD BE PAINFUL FOR EUROPE'S BANKS
- BANK RELIEF AS NO STING IN BASEL III TAIL
- HOW BASEL HITS THE BANKS

7
8
10

▶ **STILL TO COME**

- NO LET UP IN G20 REFORMS AFTER BASEL AGREED
- G20 PROGRESS ON FINANCIAL REGULATION

12
14

SPECIAL REPORT

Global leaders are set to give their seal of approval to a set of tougher bank capital and liquidity standards when they meet in Seoul in November, putting in place the world's core regulatory response to the financial crisis.

The Basel III package starts rolling out in 2013 and takes full effect six years later.

Experts believe leading banks will want to show they can comply sooner rather than later as part of wider efforts by the sector to win back the public's trust.

The world leaders from the Group of 20 countries who will rub shoulders in Seoul are likely to be in a congratulatory mood over the speed at which Basel III was drafted and approved – roughly a year compared with the decade of wrangling its tarnished predecessor took to agree.

But the G20 won't be resting on its laurels and will now turn its attention to the equally tricky task of dealing with "too big to fail" banks.

The Financial Stability Board, which implements G20 regulatory measures, will present leaders with a range of options for ensuring that big banks in future cannot assume the government will shore them up in the next crisis.

But one of those options – a surcharge on large systemically risky banks – has already been rejected out of hand by France in a sign of how hard it will be to impose a common global approach.

The G20 will also look at ways to crack-down on opaque derivatives trading, how to tackle the "shadow banking" sector and rein in the influence of credit rating agencies.



The buildings of the Canary Wharf financial district tower over Poplar, in East London March 27, 2010. REUTERS/Jas Lehal

Cover Photo: Office blocks are seen in the Canary Wharf business district in London January 19, 2009. REUTERS/Stephen Hird

FACTBOX

BASEL III: THE NEW RULES

By HUW JONES

CENTRAL bank governors and regulators have finalised a package of reforms that will force banks to more than triple to 7 percent the amount of top quality capital they must hold to withstand shocks without state aid.

Leaders of the Group of 20 countries (G20), who called for the reform, are due to give final approval to the package in November.

The following are the new rules facing banks:

TIER 1 CAPITAL

This is a bank's basic capital reserves, calculated according to the riskiness of the assets it has on its books.

Under Basel III, the Tier 1 capital ratio will be pegged at 6 percent, with core Tier 1 – which is top quality capital such as retained earnings or shares – set at 4.5 percent. This is up from the previous Tier 1 level of 4 percent and core Tier 1 of 2 percent.

Implementation will start in January 2013, when core Tier 1 rises from 2 percent to 3.5 percent, with full phase-in of the Tier 1 rules to be completed by January 2015.

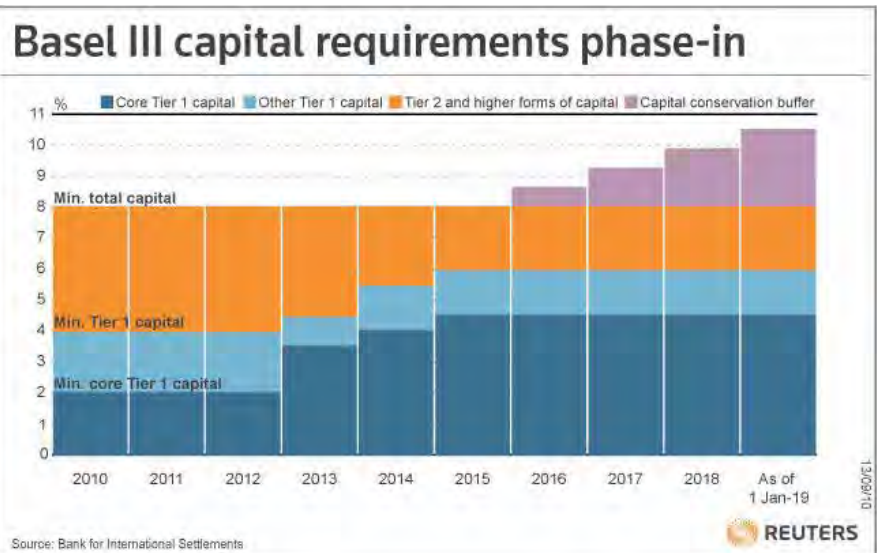
Deferred taxes, investments in other banks and mortgage-servicing rights will only be able to make up 15 percent of core Tier 1 capital – there was previously no limit. This will take effect in 2018.

Existing state capital injections into banks can be kept until January 2018.

ACTION POINT FOR BANKS: Banks falling short of the capital requirements will have to retain more of their profits, raise additional capital or reduce their exposure to riskier assets.

CAPITAL CONSERVATION BUFFER

Basel III introduces a capital conservation buffer of 2.5 percent that will sit on top of Tier 1 capital. There was never such a requirement before.



The new buffer will have to be composed of common equity, after the application of deductions like deferred taxes.

The buffer will be phased in from January 2016 and will be fully effective in January 2019.

ACTION POINT FOR BANKS: Any bank whose capital ratio falls below the buffer faces restrictions by regulators on payouts such as dividends, share buybacks and bonuses.

COUNTERCYCLICAL CAPITAL BUFFER

This is a further buffer set at 0 to 2.5 percent of common equity or other full loss-absorbing capital

The aim of the buffer is to force banks to start building up extra capital when supervisors see excessive credit in the system that threatens to spark loan losses later on. Banks would then tap the buffer to offset such losses without having to raise fresh capital immediately.

ACTION POINT FOR BANKS: This is unlikely to be imposed in Europe, U.S. or Japan anytime soon due to muted credit growth. Regulators in

faster growing regions such as Asia may choose to impose the buffers, meaning some banks may be facing capital ratios in excess of 10 percent

LEVERAGE RATIO

This aims to put a cap on the build-up of leverage in the banking sector on a global basis for the first time.

A trial leverage ratio of 3 percent of Tier 1 capital – which means balance sheets cannot exceed 33 times the level of Tier 1 capital – is to be trialled from 2013 before a mandatory leverage ratio is introduced in January 2018.

This aims to lessen the risk that eventual deleveraging could destabilise the financial sector as well as imposing an additional safeguard.

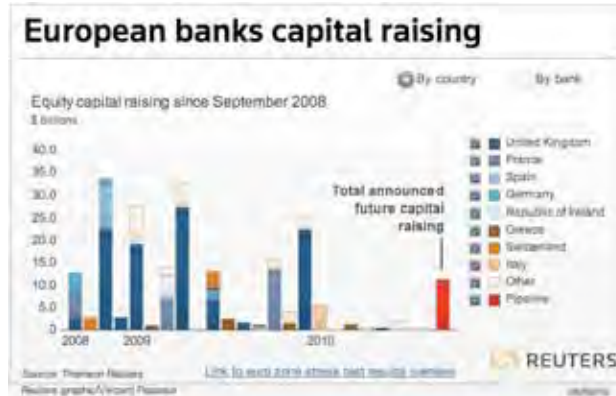
ACTION POINT FOR BANKS: As this is not measured on a risk-weighted basis, any banks with a ratio below 3 percent will have to shrink their balance sheets or boost their capital base even if they hold predominantly high-quality assets.

LIQUIDITY

The world’s first set of common liquidity requirements aims to ensure banks have enough liquid or cash-like assets to tide them through a very severe short-term shock and for less severe conditions in the medium to longer term.

The short-term liquidity buffer – known as the liquidity coverage ratio – will require a bank to have enough highly liquid assets on its balance sheet to cover its net cash outflows over a 30-day period following a shock event such as a three-notch downgrade to its public credit rating. This will come into effect in 2015.

A one-year horizon liquidity buffer, known as a net stable funding ratio, will require bank assets to be funded by sources judged to be “stable”. Different funding sources will be assigned different ratings as to how stable they are. This will be trialled from 2012 and become mandatory in January 2018.



[CLICK FOR INTERACTIVITY](#)

ACTION POINT FOR BANKS: Boost holding of highly liquid assets such as government debt to meet the short-term requirement by 2015. For the one-year liquidity buffer, banks falling short of the requirement will have to either seek longer-term funding sources or reduce their level of longer-term lending.

RISK COVERAGE

These proposals aim to strengthen capital requirements for counterparty credit exposures arising from banks’ derivatives, repo and securities financing activities.

Banks will have to have in place capital buffers against these exposures while there will be incentives to clear bilaterally traded derivative contracts in central counterparties.

There will be a risk weighting of 1-3 percent on banks’ mark-to-market and collateral exposures to a central counterparty.

The risk weighting on non-centrally cleared contracts will be higher but has not been announced yet.

ACTION POINT FOR BANKS: Most banks will have to put most of their derivatives trades through clearing houses. Banks will have to ensure capital buffers are in place for dealing with counterparty credit exposures although most of the precise rules are still to be set.

ANALYSIS

IMPLEMENTATION KEY TO BASEL III SUCCESS

By **Huw Jones**
LONDON, Sept 12

THE global “Basel III” deal on bank capital standards was reached at lightning speed by usually glacial regulators – substantive negotiations took about a year, compared to a decade for the current Basel II rules.

But implementing the new standards consistently over the lengthy phase-in period will be a headache for national regulators, and determine whether Basel III succeeds better than its predecessor in reducing bank sector risk.

- The Basel III rules are much tougher than Basel II, which failed to ensure banks held enough capital to withstand the worst financial crisis since the Great Depression.

- Although Basel III more than triples the amount of top-quality capital that banks will have to hold in reserve, there are several potential pitfalls in timing and content that could undermine the reform’s effectiveness.

- The key aspects of the completed package will not all be phased in until the start of 2019, presenting a challenge for supervisors and their political masters to maintain momentum in their supervision of the sector. Lobbying by banks or an eventual return to boom times could blunt the will to enforce Basel III, as memories of the global credit crisis fade.

- The new capital conservation buffer of 2.5 percent, which is lower than some banks had feared, will not be fully in place until the start of 2019. At this time, the buffer plus the Tier 1 capital requirement will total 7 percent; in practice this is likely to become a solid floor for banks, because they will not want to face curbs on payouts such as bonuses, dividends and share buybacks. Falling below 7 percent could damage a bank’s reputation among investors and in the money markets.



Click to watch now or visit the link:
<http://link.reuters.com/dyv65p>

REUTERS **INSIDER**

“The new Basel regulations will increase pressure on banks to lend more”
– Huw Jones

- The new capital rules are not the only fresh burden on banks; they should be seen in conjunction with a range of regulatory initiatives that together could have large and unpredictable effects on banks.

Banks will have to comply with the first new global liquidity standard from January 2015; this will increase pressure to build up reserves of cash-like assets.

Separately, regulators will introduce far tougher capital requirements on bank trading books from the end of 2011, and these will force some institutions to rethink whether they want to continue financial market trading.

Also, national regulators may still impose other surcharges on big, systemically important banks as they grapple with the “too big to fail” problem; this prospect could cause large banks to build up more capital than the Basel III rules, taken in isolation, appear to imply.

- But there are doubts about how effective the new countercyclical buffer will be, if and when it kicks in.

“You have a bald number to protect against excess credit but bubbles tend to affect individual asset classes at different points in time so it’s a



Workers make adjustments to a large Commerzbank logo on the facade of a Commerzbank administrative building in Frankfurt July 21, 2010. REUTERS/Ralph Orlowski

blunt instrument. To manage risk you have to be more targeted,” said Richard Barfield, director at PriceWaterhouseCoopers.

It will be up to each national supervisor to determine when banks on its turf should start building up a countercyclical buffer; in the past, this has been a recipe for widely different approaches by regulators.

- Implementation is likely to be more universal than it was under Basel II; this time the United States appears fully on board, after it failed to implement all of Basel II. However, the lengthy transition period means political and economic changes may have altered the intentions of U.S. regulators by the time compliance becomes mandatory.

- Some top banks already hold more high-quality capital than Basel III will require. But many banks may feel pressure to show investors they can comply with the new package sooner rather than later, in order to ensure they are not be lumped in with the stragglers in raising capital.

“I expect that what will happen is that the larger banks will move towards these figures ahead of the timetable,” said Barfield at PricewaterhouseCoopers.

- There are still controversial loose ends for regulators to tie up to make the Basel III package fully effective.

The announcement of full details of a planned cap on leverage and new liquidity requirements

were delayed in July this year; their implementation is not due until 2018 once full details have been fleshed out, which will not be easy.

- The consensus on Basel III could start to fall apart if unforeseen impacts or foot-dragging by some countries starts to give banks in certain places competitive advantages over peers elsewhere.

“There has been a tremendous focus on getting this done quickly and it has been done to the G20 timeframe, which is why we need this ongoing monitoring and ability for mid-course corrections,” said Simon Hills, a director at the British Bankers’ Association.

- Basel III is at the core of the G20’s efforts to apply lessons from the global financial crisis, and the agreement will allow G20 leaders meeting in Seoul in November to congratulate themselves by endorsing a major reform of banks.

But there is a risk that the G20 could put too much reliance on higher bank capital levels and not focus enough on strengthening other aspects of the financial system that were found wanting in the crisis.

“Apart from a consistent worldwide application, it’s important that capital is just part of the process of improving financial stability. The other key factors are improved supervision, improved risk management and making those things happen as well is the difficult challenge,” Barfield said.

(Editing by Andrew Torchia)

BREAKINGVIEWS

BASEL'S BUFFERS COULD BE PAINFUL FOR EUROPE BANKS

BY PETER THAL LARSEN
LONDON, Sept 14

BASEL'S buffers could be painful for Europe's banks. Most of the continent's lenders are already comfortably above the new 7 percent minimum set by regulators. But a reserve designed to dampen the economic cycle, and an extra helping of capital for systemically important banks, could eat up much of the excess. Despite investors' relief at news of the rules, it's too early for banks to think about returning cash.

Even though lenders have been given until January 2019 to comply with the rules, a Breakingviews analysis shows that most European banks already exceed the new minimum of 7 percent equity capital as a proportion of risk-weighted assets. On KBW's 2011 forecasts for capital and risk-weighted assets, only five of Europe's top 50 banks fail to meet the threshold.

The main culprit is bailed-out Commerzbank. It has a shortfall of 9.5 billion euros, although it has a peculiar form of capital from the German government known as "silent participation", which it has until 2018 to repay.

Add in the counter-cyclical buffer, however, and the picture worsens. This allows regulators to demand up to 2.5 percent more capital, depending on the economic cycle. Assuming a mid-cycle figure of 1.25 percent was in place by end-2011, 22 of Europe's top 50 banks – including Intesa Sanpaolo, BBVA and Erste Bank – would need to strengthen their balance sheets.

But it is the extra charge for systemic banks that could really prove painful. Though regulators have given few clues about how such a buffer would work, it would make sense for it to be on a sliding scale, so that the charge rises as balance sheets grow.

Assume that banks would have to hold an extra 0.2 percentage points of capital for each additional 100 billion euros of risk-weighted assets. On that basis, most of Europe's largest banks

REUTERS INSIDER



Click to watch now or visit the link:
<http://link.reuters.com/sec35p>

"On our number crunching... you would find that 30 of the biggest 50 banks in Europe would not have enough capital"
– Hugo Dixon, Editor, Breakingviews

– including BNP Paribas, Santander, Barclays, Unicredit, Credit Agricole, and Societe Generale, – would face a shortfall at the end of 2011.

Even if the charge were reduced to 0.1 percentage points for each 100 billion euros of RWA's, half of the top 50 banks would need extra capital. Among the biggest banks only HSBC, RBS, Lloyds Banking Group and UBS would still have a comfortable excess.

Of course, regulators will probably give banks plenty of time to build up their buffers. That should allow them to make up the shortfall with retained earnings rather than raising extra capital. Banks may also be allowed to use different forms of capital, such as contingent convertible bonds, to fill the buffer.

Nevertheless, the market's reaction to the Basel rules shows that investors expect banks to meet new targets today, even if they do not come into force for many years. Until Europe's lenders have some clarity on the new buffers, it would be premature for them to think about returning spare capital.

(Editing by Hugo Dixon and David Evans)

CLICK FOR
A BASEL
CALCULATOR

ANALYSIS

BANK RELIEF AS NO STING IN BASEL III TAIL

BY STEVE SLATER
LONDON, Sept 12

GLOBAL regulators have agreed a set of radical new capital rules for banks that could free up stronger lenders to release surplus cash while forcing some laggards to raise funds.

Banks will have to hold far more capital to make them more resilient to financial shocks -- and better quality capital, too. But they will breathe a sigh of relief that there was no sting in the tail to the "Basel III" reform plans announced on Sunday evening.

Banks will need to have a minimum core Tier 1 capital ratio of 7 percent, including a 2.5 percent capital conservation buffer. That's more than three times the current minimum of 2 percent, but lower than banks had feared earlier this year. They will also have years to meet the so-called Basel III reforms.

"It is clear that as a result of concerns about the anemic economic environment, Basel is trying to balance the need for tougher regulation with supporting the banks' inevitable role in the recovery. Hence the long implementation time frame," said Chris Wheeler, analyst at Mediobanca in London.

Top German lender Deutsche Bank is seeking a headstart on its rivals by announcing plans to raise almost 10 billion euros to bolster its capital, and more banks in Germany, Spain, France, Japan and elsewhere are likely to follow suit to meet the new standards.

But Basel III could also be the catalyst for stronger banks to release surplus funds such as by resuming or growing their dividends, and Nordic and Canadian lenders could be first to act.

Robbert Van Batenburg, head of equity research at Louis Capital Markets in New York, said markets should take the news positively.

REUTERS INSIDER



Click to watch now or visit the link:
<http://link.reuters.com/tec35p>

"I think that over the 10-year time frame, banks... will raise enough common equity to offset the reductions in trust-preferred securities"
– Richard Bove, Rochdale Securities

"I don't think there are any nasty surprises, and there's a time frame to allow for plenty of time to raise capital if needed. The best thing is it removes the uncertainty that was hanging over the market," he said.

The immediate spotlight will inevitably shine on banks in danger of falling below the new capital standards.

The sickest banks during the financial crisis took massive doses of public and private cash medicine – notably big lenders in the United States, Britain, Benelux and Switzerland – and shouldn't need more.

But Deutsche Bank's cash call to raise its stake in Deutsche Postbank and plump up its capital shows there are weak spots.

Germany's 10 biggest banks may need 105 billion euros under the new rules, the country's bank association has said. Commerzbank and several landesbanks could be next.

National Bank of Greece has also unveiled a rights issue, and analysts say France's Credit Agricole and Societe Generale as well as Irish, Greek, Portuguese and unlisted Spanish banks could all come to the market, too.

Big U.S. banks shouldn't have a major need for cash after raising over \$200 billion in recent years to lift their common capital ratios to an average of about 9 percent.

"U.S. banks are going to come through this pretty much unscathed," said Paul Miller, bank analyst with FBR Capital Markets.

But the rules will force many regional U.S. banks to replace portions of their capital funded by hybrid securities, such as trust preferred securities, with common equity.

While banks who need to repay TARP funds, such as Fifth-Third, are seen as most likely to raise capital, among those well-positioned to reinstate higher dividends could be JPMorgan or Wells Fargo analysts say.

In Asia, Japan's banks have been under most scrutiny as they have lower capital levels than elsewhere.

Jitters about the global economy may sway those banks close to the capital buffer zone on whether to jump in alongside Deutsche Bank or bide their time.

A senior investment banker in Europe expects a flurry of modest-sized fundraisings early in 2011, once there is more clarity on the macroeconomic outlook. Investors have cash, but will remain wary of equities until the threat of a double-dip recession fades, he said.

Analysts also warn that although banks have escaped a sharp shock, the new standards, which also included significant reforms of liquidity and funding rules, will depress profitability and returns for years to come.

(Additional reporting by Joe Rauch and Rachel Armstrong; Editing by Hugh Lawson)

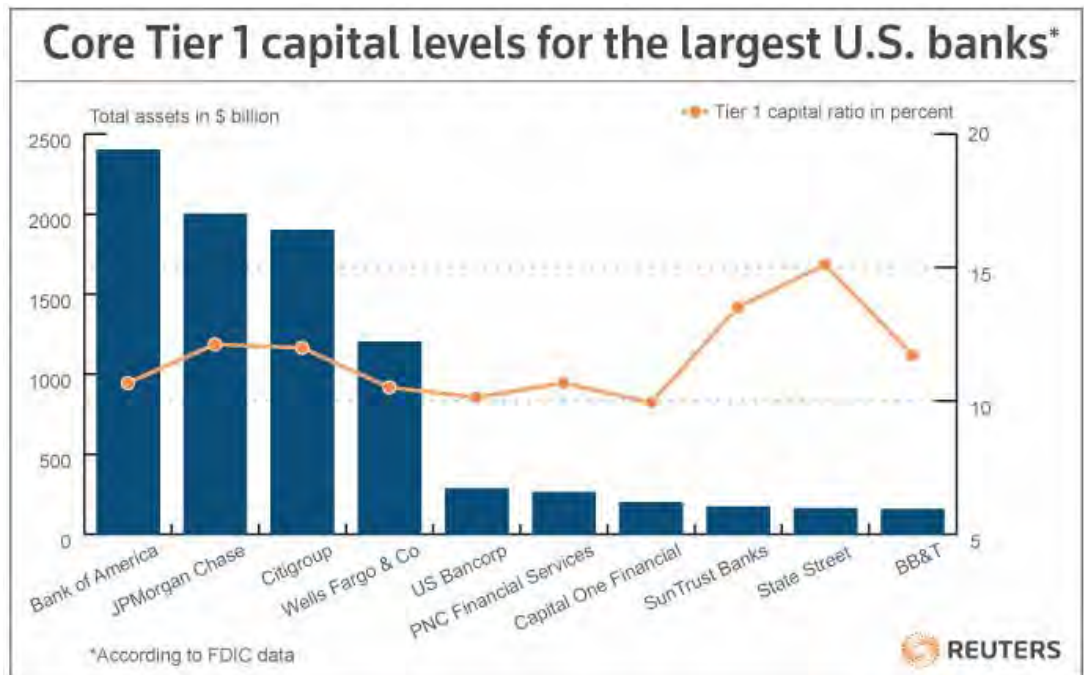


A man uses an automated teller machine at a Deutsche Bank branch in Madrid April 1, 2008. REUTERS/Andrea Comas

HOW BASEL HITS BANKS

US

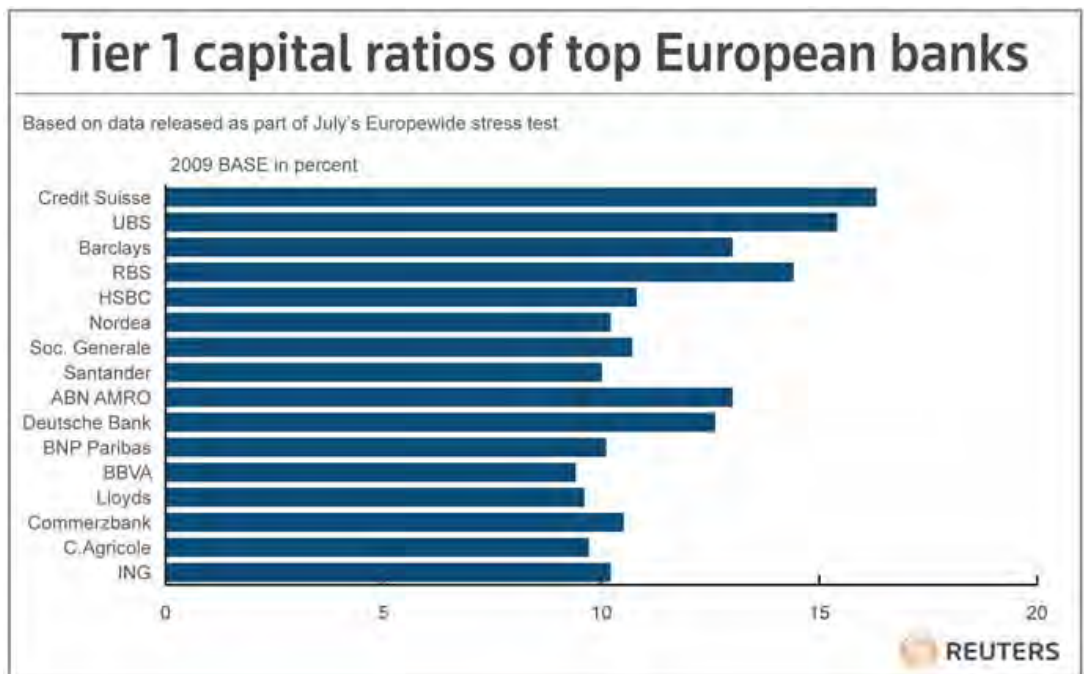
U.S. banks are unlikely to be compelled to raise additional capital under the new global Basel banking regulations. U.S. banks generally hold more capital now than is expected to be required under the new standards, and are expected to be largely unaffected by the pending rule changes.



EUROPE

European banks are likely to feel the most impact of the new Basel III rules. Germany's Deutsche Bank is to raise 10.2 billion euros in a share issue to bolster its capital position as well as to finance its acquisition of Deutsche Postbank. Other German banks are expected to follow suit.

National Bank of Greece has launched a rights issue and other lenders in Greece, Spain, Portugal and Italy could tap investors for funds, analysts estimate.

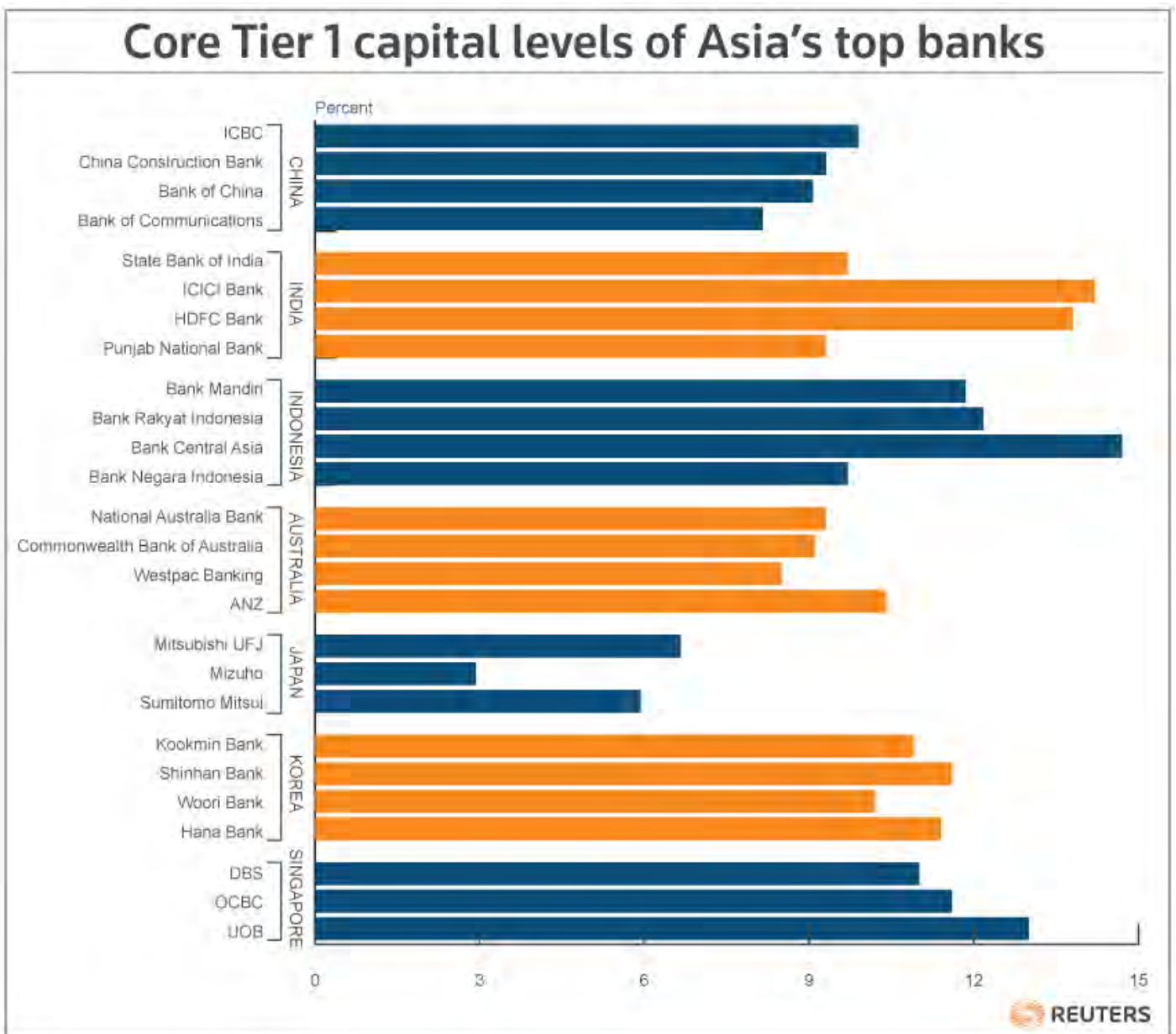


ASIA

Most Asian banks already hold Tier 1 capital well above the expected minimum levels, though some in Japan may find it tougher to meet the new requirements.

Analysts now expect the clarification of the new rules to help them use surplus capital to accelerate lending in the region's fast-growing economies or scout for acquisitions.

Banks in Indonesia and Singapore look to be in the strongest position, having an average core Tier 1 ratio of around 12.5 % and 11.9 %, respectively.



ANALYSIS

NO LET UP IN G20 REFORMS AFTER BASEL AGREED

By **Huw Jones**
LONDON, Sept 13

A DEAL on bank capital rules won't see world leaders take their foot of the reform pedal but will instead clear the decks for them to focus more squarely on an even harder issue – tackling too-big-to-fail banks.

The Basel III measures agreed on Sept. 12 are the lynchpin of efforts by the Group of 20 leading countries to learn from the world's financial crisis but other reform pledges still need completing and new initiatives are in the pipeline.

The G20 will now devote more time at its November summit in Seoul to stepping up scrutiny of derivatives markets and shine a light on off-balance sheet "shadow banking" or the use of special vehicles to skirt some of the tougher rules.

Improving supervision and curbing the influence of credit rating agencies will also figure prominently, sources familiar with G20 workings said.

But "too-big-to-fail" is becoming the top priority.

Even before the ink on Basel III had a chance to dry, top regulators were warning that big banks face extra capital requirements to make doubly sure that taxpayers won't have to ride to the rescue again.

Basel III – which demands banks hold top-quality capital of more than triple what they do now, but with a long transition time built in – will not be enough to deal with internationally active banks, Financial Stability Board Chairman Mario Draghi said.

"We want systemically important financial institutions to have loss-absorbing capacity beyond these standards," he said.

Regulators want to end "moral hazard" – the temptation for banks to take risks – as governments won't allow them to collapse because of the damage it would wreak on the economy. The FSB will make recommendations for the



November G20 summit to discuss with a capital surcharge on big banks set to be among them.

That may be easier said than done as countries like France remain unconvinced that an extra charge on banks because of their size is the right solution.

With Basel III, there was G20 consensus that bank capital rules needed tightening but there is so far no agreement on slapping surcharges on some banks.

FSB MENU

Tackling "too big to fail" will likely take the form of a menu of solutions for G20 leaders to pick through, ranging from surcharges and forcing banks to compile "living wills" to ensure speedy wind-ups if in trouble, to agreements between countries on dealing with resolution of cross-border bank.

"The area that is probably the most difficult is the whole area of living wills and winding up arrangements," said Patrick Fell, a director at PricewaterhouseCoopers in London.

The Governor of the Bank of Italy, Mario Draghi, listens during a Future of Finance Initiative conference in Horsham, southern England, December 8, 2009.
REUTERS/Stefan Wermuth



“But if your objective is to look at the system you have to focus on the too-big-to-fail issue,” Fell said.

If regulators do end up agreeing to slap capital surcharges on big banks, they may have to accept hybrid forms like contingent capital, said Harald Benink, professor of finance at Tilburg University in the Netherlands.

“Basel III is a step in the right direction but it’s not finished. The critical thing lacking is no systemic risk charge for important banks,” Benink said.

The regulators who completed Sunday’s Basel III package appear to be listening.

“The Basel Committee and the FSB are developing a well-integrated approach to systematically important financial institutions which could include combinations of capital surcharges, contingent capital and bail-in debt,” the two bodies said in their statement on Sunday.

SHADOW BANKING NEXT

The G20 will also turn its attention to other regulatory reforms such as making sure that all member countries are implementing pledges to make derivatives markets more transparent and safer through central clearing of contracts by the end of 2012.

The United States has already adopted a law to this end and the European Union will publish its own draft law on Wednesday.

“We also have to deal with the whole shadow banking system, which has not been addressed in a coherent manner,” the G20 source said.

Regulators in the G20 want to reduce the role of credit rating agencies in determining how much capital reserves banks must set aside.

“Capital alone is not going to save us. We need more effective supervision and there is much in the way to be done by many national authorities,” the source said.

There is also a need to finalise existing G20 pledges such as forging a single set of global accounting rules in 2011.

France takes over as G20 president from November and President Nicolas Sarkozy said last month that regulating commodity derivatives would be one of his top priorities.

Financial industry officials in London are already worried that France wants to regulate commodity prices, a step Britain and others would likely resist.

(Editing by Mike Peacock)

The Lehman Brothers building is pictured in New York September 15, 2008. REUTERS/Joshua Lott

FACTBOX

G20 PROGRESS ON FINANCIAL REGULATION



AFTER the financial crisis the G20 called for major changes in global financial regulation. Basel III was part of this but there are a series of other new regulatory initiatives underway.

Following is a list of progress on the other G20 initiatives to strengthen global financial regulation.

FINANCIAL SUPERVISION: The G20 called for closer supervision of systemic risk at local and international levels.

The United States has decided to set up a council of regulators chaired by the Treasury with the Federal Reserve playing a role.

The European Union has approved a measure to create a European Systemic Risk Board, chaired

by the European Central Bank; it will be in place by January 2011. Three new pan-EU supervisory authorities for banks, financial markets and insurers will work closely with the ESRB from January 2011.

DERIVATIVES: The G20 called for greater standardisation and central clearing of privately arranged, over-the-counter (OTC) contracts by the end of 2012 to cut risk. Contracts should be traded on an exchange or other platform where appropriate.

U.S. legislation this year put strong emphasis on exchange trading as well as central clearing of contracts, and the rules are now being fleshed out.

The EU is due to present two draft laws on Sept. 15, the first on OTC derivatives and clearing, the

The leaders of the Group of 20 pose for a family photo at the G20 Summit in Toronto June 27, 2010.

REUTERS/Jim Young

second on curbing abusive short-selling; the latter will affect derivatives such as credit default swaps.

HEDGE FUNDS: The G20 agreed hedge funds above a certain size should be authorised and obliged to report data to supervisors.

SECURITISATION: The G20 wants banks to start retaining some of the securitised products they sell by 2010 as an incentive to raise underwriting standards. The EU and the United States have both approved rules mandating retention of 5.0 percent.

CREDIT RATING AGENCIES: The G20 wanted them registered and supervised by the end of 2009. The EU has adopted a law mandating registration and direct supervision that takes effect this year. U.S. legislation passed this year includes similar provisions.

PAY: The G20 has endorsed principles to stop bonus schemes in banks from encouraging too much short-term risk-taking, such as deferral of part of a bonus, a claw-back mechanism, payment in the form of shares rather than cash, and avoiding multi-year guaranteed bonuses. European countries and the United States have generally introduced rules based on the principles.

"TOO BIG TO FAIL": Several measures are being considered to avoid taxpayers having to bail out very large banks because their collapse would be too destabilising for markets.

Systemically important firms should start to develop contingency and wind-up plans known as "living wills" by the end of 2010, the G20 said. Britain is running a pilot programme for this, but most countries have not made final decisions on reforms in this area.

The Financial Stability Board, an international body tasked to implement G20 pledges, will make recommendations in November which will include possible "surcharges" on systemically important firms and "structural" remedies.

Reuters 3000 Xtra subscribers can click through for:

Latest on global regulation reforms

For comments, queries or tips:

Rachel Armstrong

Asia Regulation Correspondent

+65 6870 3835

rachel.armstrong@thomsonreuters.com

Huw E Jones

Regulation Correspondent, Europe

+44 207 542 3326

huw.jones@thomsonreuters.com

© Thomson Reuters 2010. All rights reserved.

Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Reuters' and the Reuters logo are registered trademarks and trademarks of Thomson Reuters and its affiliated companies.



REUTERS