BANK OF ENGLAND

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Self-Regulation's Last Stand?

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A Basel History

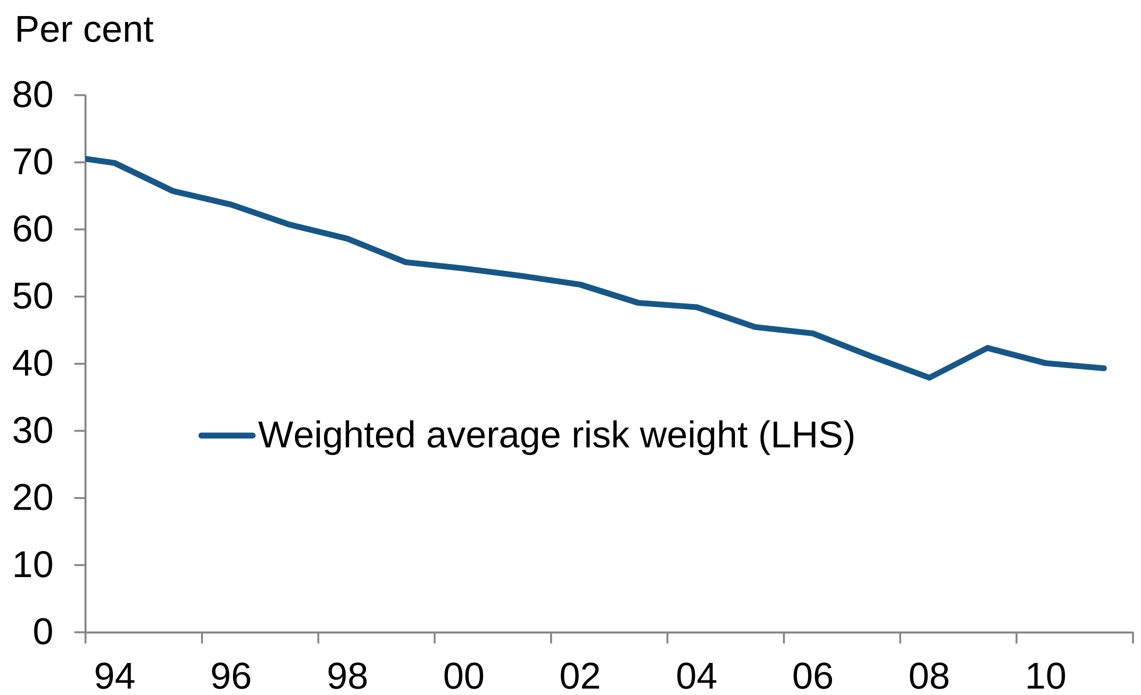
	Pages	Risk Weights
Basel I	30	5
Basel II	347	> 200,000
Basel III	616	> 200,000

- From *simple regulatory rules*...

.... to *complex self*-regulatory *discretion*

Risk v Risk Weights?

Average risk weights for 17 G-SIBs[(a)]

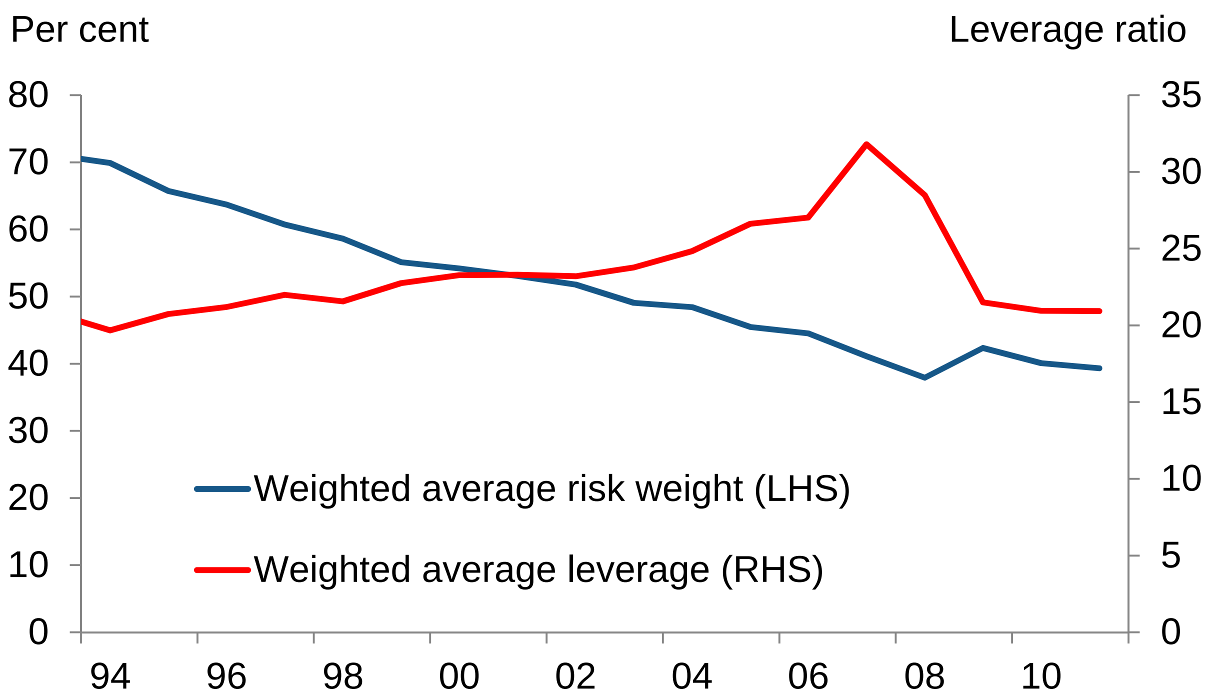


Source: The Banker, Bloomberg and Bank calculations.

(a) Sample consists of Deutsche Bank, HSBC, BNP Paribas, Barclays, Citigroup, UBS, BAML, BONY, Commerzbank, ING, JPM, LBG, RBS, Santander, State Street, UniCredit, Wells Fargo. Data is not available for the remaining G-SIBs.

Risk v Risk Weights?

Average risk weights and leverage for 17 G-SIBs[a][b]



Source: The Banker, Bloomberg and Bank calculations.

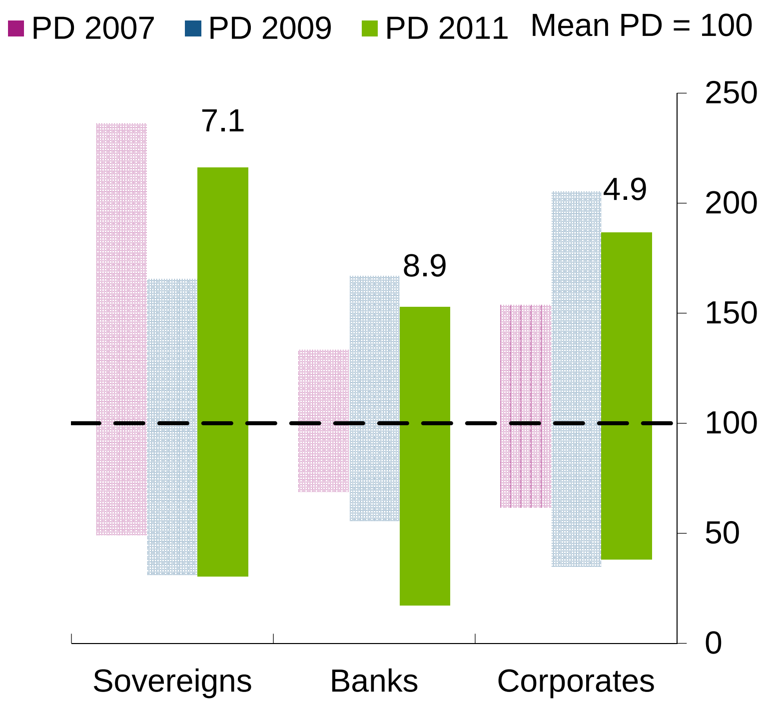
(a) Sample consists of Deutsche Bank, HSBC, BNP Paribas, Barclays, Citigroup, UBS, BAML, BONY, Commerzbank, ING, JPM, LBG, RBS, Santander, State Street, UniCredit, Wells Fargo. Data is not available for the remaining G-SIBs.

(b) Leverage ratio defined as Total assets / Tier 1 capital.

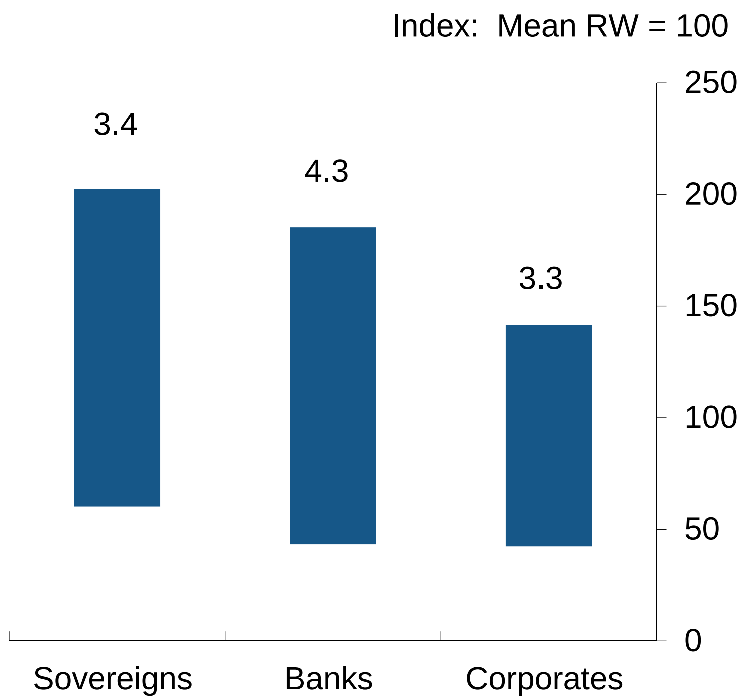
Level Playing Field?

Banking book

Variability in PDs in FSA HPEs over time (max/min factors on bars)



Variability in RWs in 2011 HPE (max/min factors on bars)

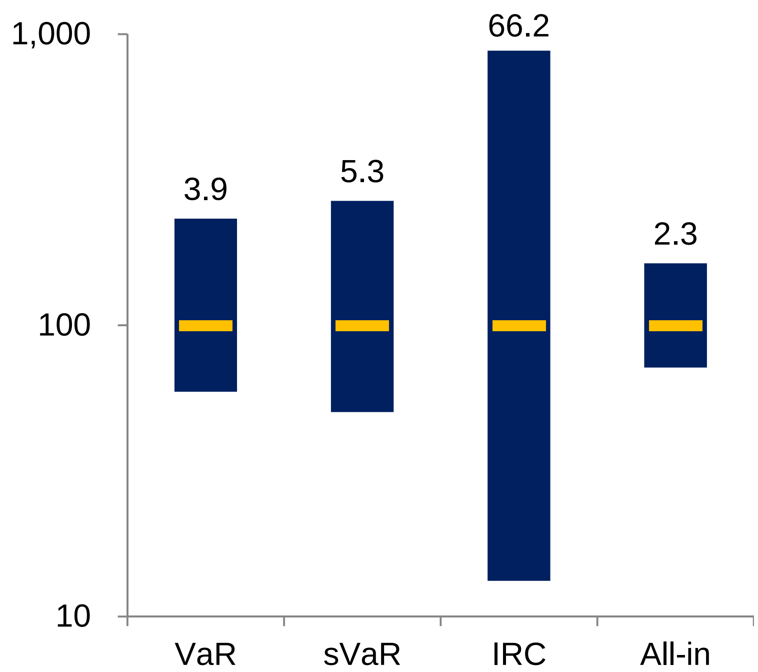


Source: FSA, Bank calculations. Sample sizes vary from 6 – 13 across years and portfolios. For 2011, the sample consisted of 8 banks for all portfolios.

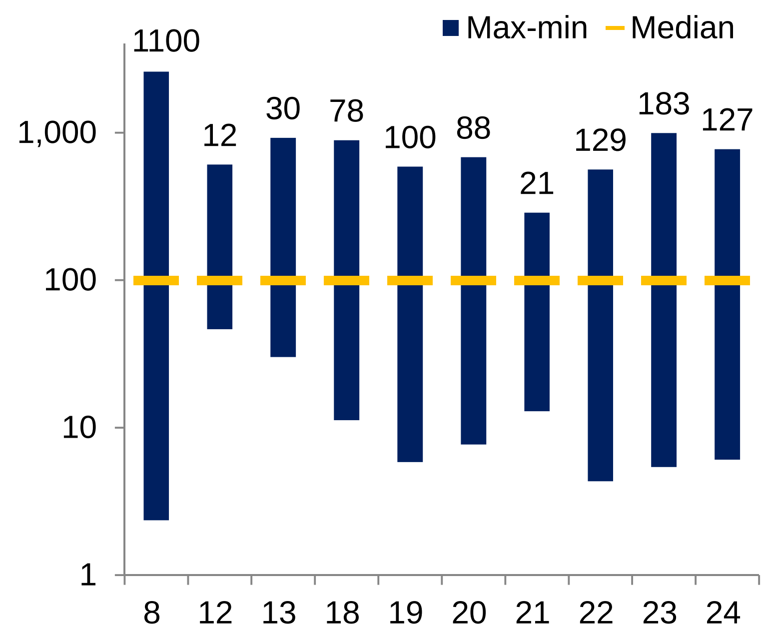
Level Playing Field?

Trading book

Variability in capital requirements by risk metric (max/min factors on bars)



Variability in capital requirements for the Incremental Risk Charge by trade (max/min factors on bars)

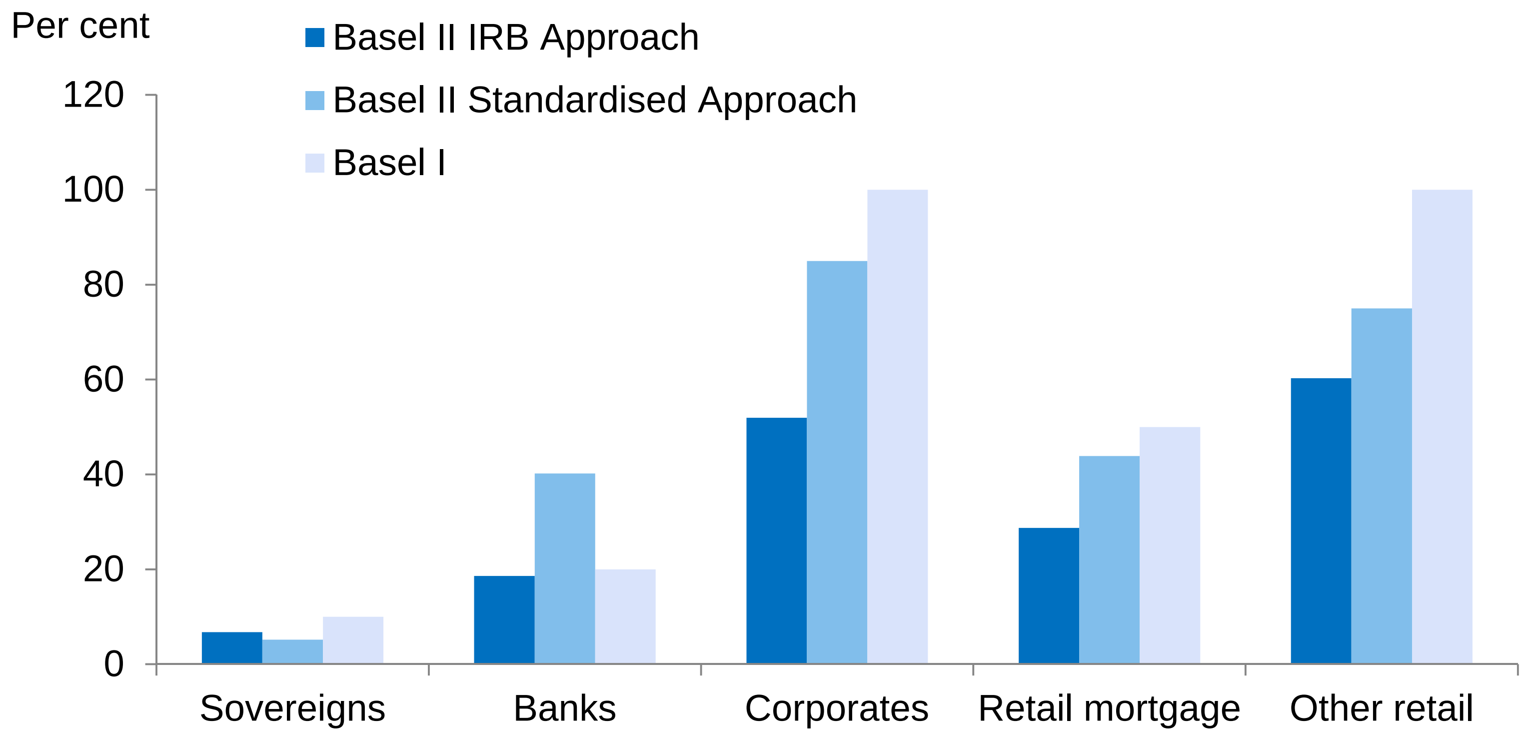


Source: BCBS, Bank calculation. Sample consists of 15 banks.

Level Playing Field?

Big versus small banks

Average risk weights for major UK banks under different approaches [(a)]

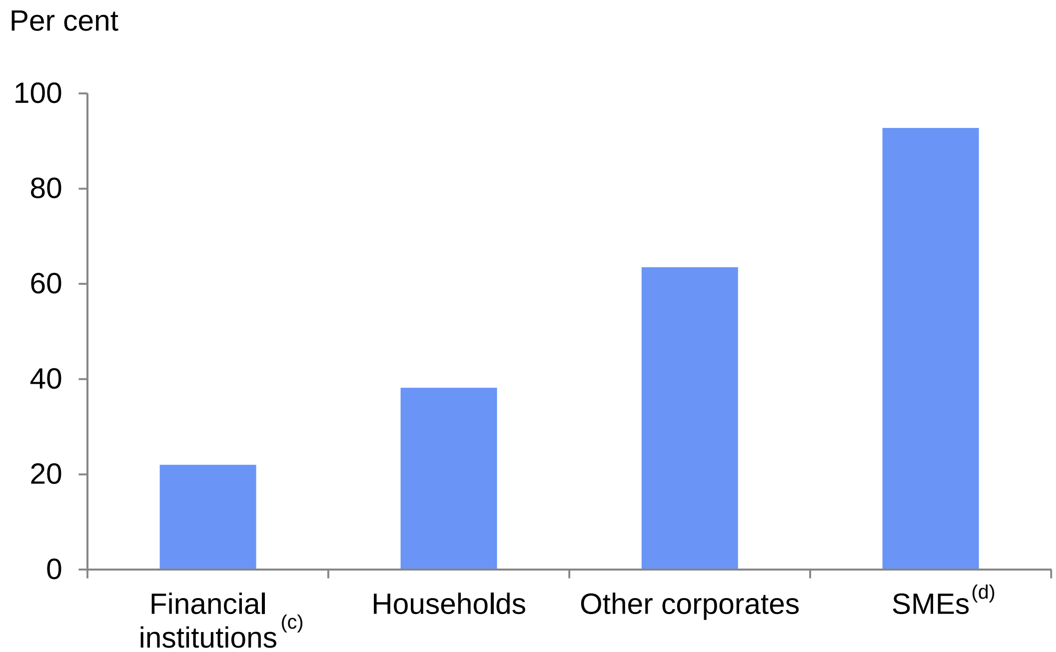


Source: Pillar 3 disclosures, Bank calculations
(a) As of end-2011. Weighted average.

Level Playing Field?

Real economy and intra-financial risk weights

Average risk weights for major UK banks by counterparty[(a)(b)]



Sources: Bank of England, FSA regulatory returns and Bank calculations.

(a) Based on June 2011 data for Barclays, HSBC, LBG, Nationwide, RBS and Santander UK.

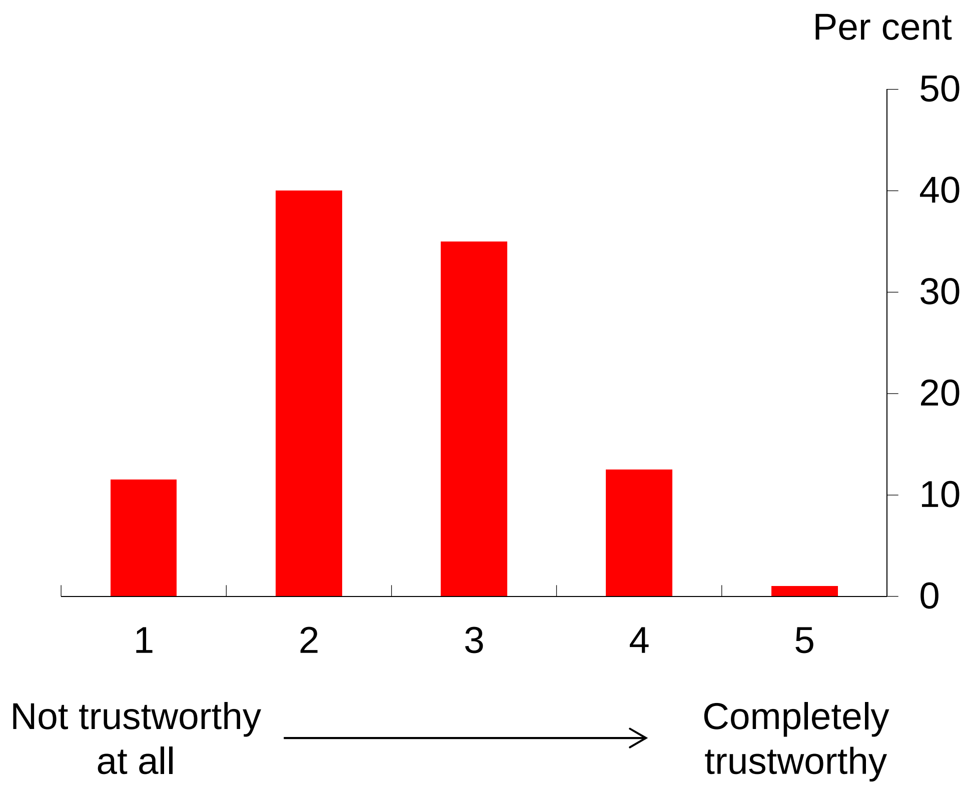
(b) Cover credit and counterparty credit exposures.

(c) Financial firms other than regulated banks and investment firms are included within ‘Other corporates’.

(d) Only includes data on SME credit exposures from internal ratings based portfolios.

Market discipline?

How much do you trust risk weightings?



Source: 'Bye Bye Basel? Making Basel more relevant', Barclays Capital, May 2012.

Solutions

- Transparency
  - Enhanced Disclosure Task Force
  - Regular Hypothetical Portfolio Exercises?
- Floors
  - International "Collins Amendments"?
- Leverage
  - Greater prominence/higher level for leverage ratio?
- A New Deal?
  - Lower leverage in return for lower complexity/supervision?