

910 259 705

Banking on Basel

The Future of International
Financial Regulation

Daniel K. Tarullo

B 361174

Peterson Institute for International Economics
Washington, DC
August 2008

Contents

Preface	ix
Acknowledgments	xiii
1 Introduction	1
Summary of Argument	5
Outline of the Book	7
A Note on Timing	13
2 Role of Capital Regulation	15
Rationale for Capital Regulation	16
Evolving Role of Capital Regulation	29
Conclusion	42
3 Basel I	45
Origins of the Accord	45
Elements of the Accord	54
Assessment of Basel I	64
Conclusion	84
4 Negotiating Basel II	87
Launching the Review Process	87
Curious Release of the First Consultative Paper	93
Shift to an Internal Ratings–Based Approach	104
Process of Continuous Revision	113
Revised Framework	122

Responding to the Subprime Crisis	131
Conclusion	135
5 Assessing Basel II as a Regulatory Model	139
Do Regulatory Capital Requirements Matter?	141
Potential Benefits of the Advanced Internal Ratings– Based Model	150
Potential Negative Effects of the Advanced Internal Ratings–Based Model	177
Conclusion	189
Appendix 5A	191
6 Basel II as an International Arrangement	195
Safety and Soundness	197
Competitive Equality	209
Cooperative Supervision of Multinational Banks	214
Indirect Benefits	222
Conclusion	223
7 Alternatives to Basel II	225
Retaining a Standardized Approach	226
Market Discipline: Mandatory Subordinated Debt	231
Precommitment Approach	246
Establishing an International Supervisory Role	251
Eliminating International Cooperation on Safety and Soundness	255
Conclusion	256
8 Conclusions and Recommendations	259
Recommendations	262
Implications Beyond Capital Regulation	279
References	285
Index	299