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Basel III: The Global Banks at The Edge of The Precipice. Trillions of "Toxic Waste" in the Global Banking System

The Global Too Big To Fail Banks are so precarious that literally anything can trigger a collapse in the coming months.

I have read recent commentaries on Basel III posted to various renowned websites and financial publication, but they missed (or deliberately misled) the ***underlying message*** of the proposals, the implementation of which will be delayed till 2017 and some till 2019.
Basel III is pure spin and its timing was to assuage the deep-seated fears that there are no solutions in sight to save the fiat money system and fractional reserve banking.

THE PROBLEM

The major global banks are all ***under-capitalised*** and this was all too apparent when Lehman Bros. collapsed. Banks were borrowing so much and so recklessly to play at the global casino that when the bets went sour, they were staring at a black-hole in the $trillions. In fact the banks are all insolvent.

The problem was compounded when the central bankers (all are corrupt without exception) and regulators turned a blind eye to how bankers defined what constituted “capital” so as to circumvent the need to maintain the capital ratio.

THE BASEL III SOLUTION

At its 12 September 2010 meeting, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced a substantial strengthening of existing capital requirements and fully endorsed the agreements it reached on 26 July 2010.

These capital reforms, together with the introduction of a global liquidity standard, deliver on the core of the global financial reform agenda and will be presented to the Seoul G20 Leaders summit in November.

The Committee's package of reforms will increase the minimum common equity requirement from 2% to 4.5%.

In addition, banks will be required to hold a capital conservation buffer of 2.5% to withstand future periods of stress bringing the total common equity requirements to 7%. This reinforces the stronger definition of capital agreed by Governors and Heads of Supervision in July and the higher capital requirements for trading, derivative and securitisation activities to be introduced at the end of 2011.

Increased capital requirements

Under the agreements reached, the minimum requirement for common equity, the highest form of loss absorbing capital, will be raised from the current 2% level, before the application of regulatory adjustments, to 4.5% after the application of stricter adjustments.

This will be phased in by 1 January 2015.

The Tier 1 capital requirement, which includes common equity and other qualifying financial instruments based on stricter criteria, will increase from 4% to 6% over the same period.

The Group of Governors and Heads of Supervision also agreed that the capital conservation buffer above the regulatory minimum requirement be calibrated at 2.5% and be met with common equity, after the application of deductions.

The purpose of the conservation buffer is to ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress.

While banks are allowed to draw on the buffer during such periods of stress, the closer their regulatory capital ratios approach the minimum requirement, the greater the constraints on earnings distributions.

This framework will reinforce the objective of sound supervision and bank governance and address the collective action problem that has prevented some banks from curtailing distributions such as discretionary bonuses and high dividends, even in the face of deteriorating capital positions.

A countercyclical buffer within a range of 0% - 2.5% of common equity or other fully loss absorbing capital will be implemented according to national circumstances.

The purpose of the countercyclical buffer is to achieve the broader macroprudential goal of protecting the banking sector from periods of excess aggregate credit growth.

For any given country, this buffer will only be in effect when there is excess credit growth that is resulting in a system wide build up of risk.

The countercyclical buffer, when in effect, would be introduced as an extension of the conservation buffer range.

These capital requirements are supplemented by a non-risk-based leverage ratio that will serve as a backstop to the risk-based measures described above.

In July, Governors and Heads of Supervision agreed to test a minimum Tier 1 leverage ratio of 3% during the parallel run period.

Based on the results of the parallel run period, any final adjustments would be carried out in the first half of 2017 with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on appropriate review and calibration.

Systemically important banks should have loss absorbing capacity beyond the standards announced today and work continues on this issue in the Financial Stability Board and relevant Basel Committee work streams. [1]

THE LOOPHOLE & ADMISSION OF INSOLVENCY

Since the onset of the crisis, banks have already undertaken substantial efforts to raise their capital levels.

However, preliminary results of the Committee's comprehensive quantitative impact study show that as of the end of 2009, large banks will need, in the aggregate, a significant amount of additional capital to meet these new requirements.

Smaller banks, which are particularly important for lending to the SME sector, for the most part already meet these higher standards.

The Governors and Heads of Supervision also agreed on transitional arrangements for implementing the new standards.

These will help ensure that the banking sector can meet the higher capital standards through reasonable earnings retention and capital raising, while still supporting lending to the economy.

THE IRON CLAD CONFIRMATION THAT BANKS ARE IN DEEP SHITS

Please read all the passages which I have highlighted in bold in the above paragraphs. If the banks were at all material times adequately capitalised and the central bankers in collusion with these banksters and fraudsters were prevented from manipulations, there would not be any need for Basel III regulations.

In saying this, I am not in anyway conceding that even with these new requirements, the banks will be adequately capitalised.

The simple truth is that as long as the derivative casino is still running and banks are allowed to continue their off balance sheet activities, nothing will be resolved.

The 2 tables below tell the whole story:

Calibration of the Capital Framework Capital requirements and buffers (all numbers in percent)			
	Common Equity (after deductions)	Tier 1 Capital	Total Capital
Minimum	4.5	6.0	8.0
Conservation buffer	2.5		
Minimum plus conservation buffer	7.0	8.5	10.5
Countercyclical buffer range*	0 – 2.5		

Annex 2: Phase-in arrangements (shading indicates transition periods) (all dates are as of 1 January)									
	2011	2012	2013	2014	2015	2016	2017	2018	As of 1 January 2019
Leverage Ratio	Supervisory monitoring		Parallel run 1 Jan 2013 – 1 Jan 2017 Disclosure starts 1 Jan 2015					Migration to Pillar 1	
Minimum Common Equity Capital Ratio			3.5%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.50%
Minimum common equity plus capital conservation buffer			3.5%	4.0%	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20%	40%	60%	80%	100%	100%
Minimum Tier 1 Capital			4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Total Capital			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum Total Capital plus conservation buffer			8.0%	8.0%	8.0%	8.625%	9.125%	9.875%	10.5%
Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital			Phased out over 10 year horizon beginning 2013						
Liquidity coverage ratio	Observation period begins				Introduce minimum standard				
…ble funding ratio		Observation period begins						Introduce minimum standard	

[illegible]