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## Mexico bank slams 'insufficient' Basel

Friday 19 November 2010 - by Will Henley



The deputy governor of the central bank of Mexico has broken ranks to dismiss the Basel III accord on higher capital standards and countercyclical buffers as "insufficient to prevent crises".

In a speech in Washington DC, Manuel Sanchez hit out at the record of the Basel Committee to prevent past disasters, while also claiming that governments must "abolish" the de facto policy of bailing out too-big-to-fail financial institutions.

"The new [Basel III] requirements may still prove insufficient to prevent crises given their relatively low target values and the inclusion of components of lesser quality than common equity in tier one capital," he said.

"Overcoming these limitations is of the utmost importance considering the poor record of the Basel core principles for banking supervision in preventing financial problems in the past."

Speaking at the Cato Institute's annual monetary conference on Thursday, Sanchez called on other countries to reject the bailout option for large insolvent financial institutions. Bank shareholders should absorb costs in the event of failure, he said.

"This would imply forgoing the bailout capacity of the authorities, perhaps through a legal structure, and treating all institutions alike in terms of standards and liquidation procedures.

"In the case of a failure, shareholders and unsecured creditors should fully absorb all costs."

The deputy governor also called for an end to the "hands off" approach to financial supervision and regulation.

He urged countries to consider the importance of price stability to the financial system, which he said "should not be underestimated".

"Price stability is a necessary condition for avoiding undue banking collapses," he said.

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Andrew Hickley delves

into the options being explored and finds a myriad of questions and few answers

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