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CANADA FINANCE-Canada bank rules don't fit U.S model --experts

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(This story is part of a special Reuters News package highlighting Canada's financial sector.)

- * Canadian bank rules a tough sell in US - experts
- * Regulating five banks easier than regulating many
- * Cultural differences mark two systems

(Repeats story first published on June 23)

By Glenn Somerville

WASHINGTON, June 23 (Reuters) - Banking rules that spared Canada's big banks from the woes that hit global rivals would not work in the United States because of cultural differences, an expert from the Brookings Institution said on Tuesday.

Canadian regulation that requires minimum capital levels and maximum leverage ratios for the nation's Big Five banks would be a bad fit in the United States, where policymakers are debating changes to the U.S. financial system, Brookings fellow Douglas Elliott told a forum in Washington.

Elliott said it was easier to set up a regulatory regime for Canada, with just five major banks, than in the United States, where many more banks are involved. And he suggested cultural differences benefited Canadian regulators.

Canadians were more willing to accept "strong government regulation," while Americans were likely to resist it, he added during a panel discussion on lessons the United States could learn from Canada's banking success story.

Canadian banks must have a Tier 1 capital ratio -- the percentage of a bank's capital to its risk-weighted assets -- of at least 7 percent. They cannot be leveraged by more than 20 to one, according to rules enforced by the federal regulator, the Office of the Superintendent of Financial Institutions.

Conservative corporate culture among the Canadian banks and market pressure typically meant the banks have Tier 1 capital closer to 10 percent, and are leveraged just 16 or 17 to one. U.S. banks, by contrast, had Tier 1 closer to 4 percent.

A former investment banker, Elliott said there was no question that there had to be some behavioral change on the American side, even if it was achieved through requiring less complexity in the products that U.S. bankers were churning out.

"We on Wall Street went a little crazy" in developing products so complicated that many users didn't appreciate the risks they were creating, Elliott said.

President Barack Obama last week laid out his vision to reshape U.S. regulation and tighten oversight of large firms whose excessive risk-taking triggered a global economic slump.

The proposals include closing one bank regulator and creating government watchdogs for big-picture economic risk and financial product safety.

The administration would also like to force large firms to boost their capital cushions and impose regulations on over-the-counter derivatives and securitized instruments.

Obama's plans face debate in the U.S. Congress and are unlikely to become law without changes.

Barry Bosworth, another Brookings Institution fellow who participated in the panel discussion, said Canada had managed to avoid a "subprime debacle" of the type that engulfed the U.S. banking system.

But he said a proposed U.S. regulatory overhaul on Canadian lines was unlikely to succeed because it won't resolve the issue of competition among regulators for jurisdiction. "That's fundamentally what's wrong with the U.S. ... It's likely these people will fight among themselves."

Bosworth added: "You need principles-based rules and we're (the U.S.) not going to do it."

The Canadian housing system is markedly different than that in the United States.

There is no government policy encouraging home ownership, no tax break for mortgage interest, and stiffer rules on down payments and mortgages -- a contrast to the United States, where homeownership is considered part of the American Dream.

And Canadian banks hold mortgages on their balance sheets rather than selling them off as most U.S. lenders did during the housing boom. Canadian bankers say holding the mortgages gave them good reason to ensure the quality of the loans. (Writing by Andrea Hopkins in Toronto; editing by Janet Guttman)

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