

Basel III impact

Risk

Goal of the bank:
Improve pricing of risk, better capital allocation, enhanced risk measurement and management and set new risk appetite.

- How: calculate Credit Valuation Adjustment (CVA) and include in pricing.
 - Implementation scope:
 - implement calculation engine
 - ability to calculate incremental CVA
 - financial reporting and management information
- How: measure market risk in CVA and include in capital - Jan 2013.
 - Implementation scope:
 - historical data for CDS - spreads
 - VaR calculation
 - capital management and reporting
- How: stress testing of counterparty credit risk (trading book) - Jan 2013.
 - Implementation scope:
 - develop stressed calibration
 - if calibration is performed on historical data: selection data of stressed credit period
- How: model validation and periodic review of counterparty exposure models.
 - Implementation scope:
 - exposure model documentation
 - inclusion of exposure models in validation and review processes
 - independent review of the counterparty credit risk management system
- How: implement, report and manage on stressed VaR.
 - Implementation scope:
 - select market data stressed period
 - calculation and reporting
 - inclusion in risk management
- How: implement incremental risk charge.
 - Implementation scope:
 - implement calculation engine
 - improve data quality (credit, position, market data)
 - include in capital management and reporting
- How: implement new securitisation framework. Specific risk of securitisation positions in the trading book is to be calculated by same method as for banking book.
 - Implementation scope:
 - reconsider business case for securitisation positions in trading book.
 - (if BC positive) implement new calculations for trading book, and
 - adjust measurement of performance accordingly

Goal of the bank:
Manage risk and capital requirements.

- How: active management of CVA risk.
 - How: set up CVA desk.
 - Implementation scope:
 - Trading organization
 - Finance, in particular re P&L allocation
 - Risk management and capital calculation
 - How: enhance CDS trading capability.
 - Implementation scope:
 - Trading organization
 - Operations
 - Risk management and Finance and possibly Compliance
- How: Review businesses in light of their new RAROC.
 - Implementation scope:
 - business management
 - risk and capital committees
- How: move OTC derivative contracts to central counterparties.
 - Implementation scope:
 - back office processes
 - credit risk management
 - client acceptance procedures
- How: re-assess product offering in light of new capital and liquidity requirements.
 - Implementation scope:
 - business management
 - product development
 - risk management
- How: raise standards for collateral management.
 - Implementation scope:
 - collateral reporting
 - review eligible collateral and haircuts

Goal of the bank:
Manage capital to comply not only with minimal regulatory requirements but also manage in line with market expectations.

- How: manage capital in line with newly adjusted capital qualification - Jan 2013.
 - Implementation scope:
 - front to finance issuance process (especially new issuances)
- How: raise the quality of the capital base by introducing new products such as COCO's - Jan 2013.
 - Implementation scope:
 - capital management (ALM)
- How: raise the quality of the capital base by retaining earnings and issuing qualifying capital.

Goal of bank:
Apply regulatory adjustments to Common Equity Tier1.

- How:
 - deduct goodwill
 - deduct deferred tax assets
 - remove contribution of cash flow hedge reserve for items on the balance sheet that are not fair-valued (adjustment can be both positive or negative)
 - deduct shortfall of stock of provisions to expected losses (due to credit risk)
 - derecognise gain on securities transaction
 - derecognise all unrealized gains and losses due to changes in own credit risk
 - fully recognise defined pension fund liabilities: deduct defined pension fund that appear as an asset on the balance sheet
 - deduct investments in own shares
 - deduct reciprocal cross holdings in capital
 - apply corresponding deduction approach to the contribution of investments in financial institutions of less than 10% of the institution's common share capital that exceed 10% of the bank's common equity
 - apply full corresponding deduction approach to significant investments in financial institutions
 - implement threshold deductions

Goal of the bank:
Satisfy minimum core Tier1 ratio.

- How: implement exposure definition / calculation - Jan 2013.

Goal of the bank:
Determine strategy towards the new leverage ratio.

- How: implement exposure definition / calculation - Jan 2013.

Goal of the bank:
Implement capital conservation and countercyclical buffer according to new regulation.

- How: include the new buffers in the capital planning - Jan 2016.

Goal of the bank:
Improve monitoring and coordination capabilities to increase effectiveness of liquidity management

- How: implementation requirements DNB ILAAP process - Nov 2011.
 - Implementation scope:
 - improve risk behavioral models
 - improve data quality
 - improve liquidity processes
 - optimize accounting processes
 - enhanced reporting
 - set up of liquidity contingency plans
- How: further extend liquidity reporting for other currencies in which the bank has large exposure (e.g. USD).
 - Implementation scope:
 - improve data quality
 - improve liquidity processes
 - optimize accounting processes
 - enhance international governance
 - investigate legal, regulatory and operational limitations for the transferability of liquidity
- How: centralise the treasury function.
 - Implementation scope:
 - improve data quality
 - improve liquidity processes
 - optimize accounting processes
 - enhance international governance
 - investigate legal, regulatory and operational limitations for the transferability of liquidity
- How: centralize the liquidity management function to mitigate sub optimal funding.
 - Implementation scope:
 - improve data quality
 - improve liquidity processes
 - optimize accounting processes
 - enhance international governance
 - investigate regulatory constraints
 - investigate legal, regulatory and operational limitations for the transferability of liquidity
- How: monitor liquidity risk and coordinate access to international and local markets through a dedicated "liquidity manager".

Goal of the bank:
Minimize the opportunity cost of funding

- How: optimize deposit gathering.
 - Implementation scope:
 - funding strategy
 - deposit pricing (FTP) process
 - marketing processes
 - enhance international governance
 - investigate legal, regulatory and operational limitations for the transferability of liquidity
- How: Optimize window of opportunity for attracting interbank funding and via issuances worldwide.
 - Implementation scope:
 - improve data quality
 - improve funding / treasury processes
 - optimize accounting processes
 - enhanced reporting
 - improve legal structure
 - investigate regulatory constraints
- How: Lobby for improved ECB haircut policy for collateral / liquidity buffer.
 - Implementation scope:
 - build strategic alliances with other banks
 - investigate regulatory constraints
 - investigate granularity haircut possibilities
- How: Improve systems for detailing the classification of funding usages - Jan 2011.
 - Implementation scope:
 - improve data quality
 - improve liquidity processes
 - optimize accounting processes
 - enhance international governance
- How: Increase issuance of long term funding.
 - Implementation scope:
 - front to finance issuance process (especially new issuances)
- How: Lobby for more favorable definition of highly liquid assets / stable funding tools.
 - Implementation scope:
 - build strategic alliances with other banks
 - investigate regulatory constraints
 - investigate granularity possibilities

