Basel III

Overview

This course focuses on a comprehensive update on Basel capital and liquidity reforms for banks.

Key Contents

- Brief Overview of Events before and During the Banking Crisis
  - Securitisation and the mortgage markets
  - CDO markets, super senior tranches, the chase for yield, and the role of the rating agencies
  - Point of Sale accounting and mark-to-market valuation
  - Reliance on whole-sale funding and the creation of funding liquidity risk
  - Use of structured investment vehicles and implicit support
  - Impact on the interbank markets
  - Limitations in stress testing
  - Procyclicality
  - Deficiencies in senior and risk management oversight

- Changes to Capital itself
  - What are some of the major problems with the current definition?
  - An outline of the changes
    - Removal of hybrid securities
    - Introduction of Common Equity Tier 1 and Additional Tier 1
    - Regulatory adjustments
    - Elimination of Tier 3 and harmonisation of Tier 2
    - Treatment of minority interests and other investments
    - Harmonisation with IFRS
    - Bail-in bonds
  - Conservation Capital Buffer
  - Counter-Cyclical Capital Buffers
  - SIFIs and SIBS

- Changes to the Regulation of Market and Credit Risk
  - Why has traded market risk been highlighted as requiring attention?
    - Reinforcement to the approval process for internal models
    - Introduction of Stressed VaR
  - Introduction of the Incremental Risk Charge to replace Issuer Specific Risk
    - What are the broad requirements?

        - Netting and other mitigation
        - Specifying and implementing the liquidity horizon
        - Brief outline of credit portfolio modeling, including both default and migration, to estimate the IRC
        - Criticisms of the IRC, and likely modifications
    - Estimation of a capital charge for counterparty credit risk (CCR)
        - What is the current state? Background to the existing formula
        - Introduction of the Credit Valuation Adjustment (CVA)
        - How to model expected positive exposure
        - Proposed Bond Equivalent approach
    - The comprehensive risk approach   US introduction of indicator methodology
    - Centralised clearing for OTC derivatives
        - How is the credit default swap market operating?
        - Lessons to be learnt
        - Incentives and disincentives to centrally clear
        - What are the current Basel proposals?
    - Proposals under the Fundamental Review of 2012
        - Division between Trading and Banking revisted
        - Models to be calibrated in times of stress
        - Assumption of differing market liquidity assumptions
        - Changes to internal model approval
        - Replacement of VaR by Expected Shortfall
        - Movement of non-traded market risk into Pillar 1
        - Potential changes to credit risk within the Trading environment

- Changes to the Securitisation Framework
        - What went wrong, and what are the broad intentions?
        - The IOSCO Code of Conduct
        - Recalibration of the Supervisory Formula
        - Specific risk charges and SF charges

- Multi-Dimensional Risk Measures
    - Is capital the only mitigant?   Introduction of a leverage constraint
        - Background: the US experience
        - Why a leverage constraint is required: the Swiss view
        - What is proposed – how is it likely to work?
        - The overall timetable for parallel running and future calibration
        - Should this move into Pillar 1?

- Introduction of a Liquidity Framework
    - Funding liquidity: what happened during the crisis?   Estimation of the Liquidity Coverage Ratio
        - What are eligible liquid assets?
        - Estimation of run-offs
    - Estimation of the Net Stable Funding Ratio
        - Proposed calibration
    - The supervisory stress test

- Other Changes to Pillars 2 and 3
    - Increased focus with Pillar 2
        - Changing emphasis for the ICAAP
        - How the SReP may be adjusted
    - Revised disclosure requirements under Pillar 3 Changes to margining Possible changes to accounting provisioning Concerns:
    - Stress Testing
    - Corporate Governance
        - Lessons from the crisis
        - Getting the basics right
        - Continual risk monitoring
        - Enhanced oversight – the role of the Board Risk Committee