

Eye on Banking

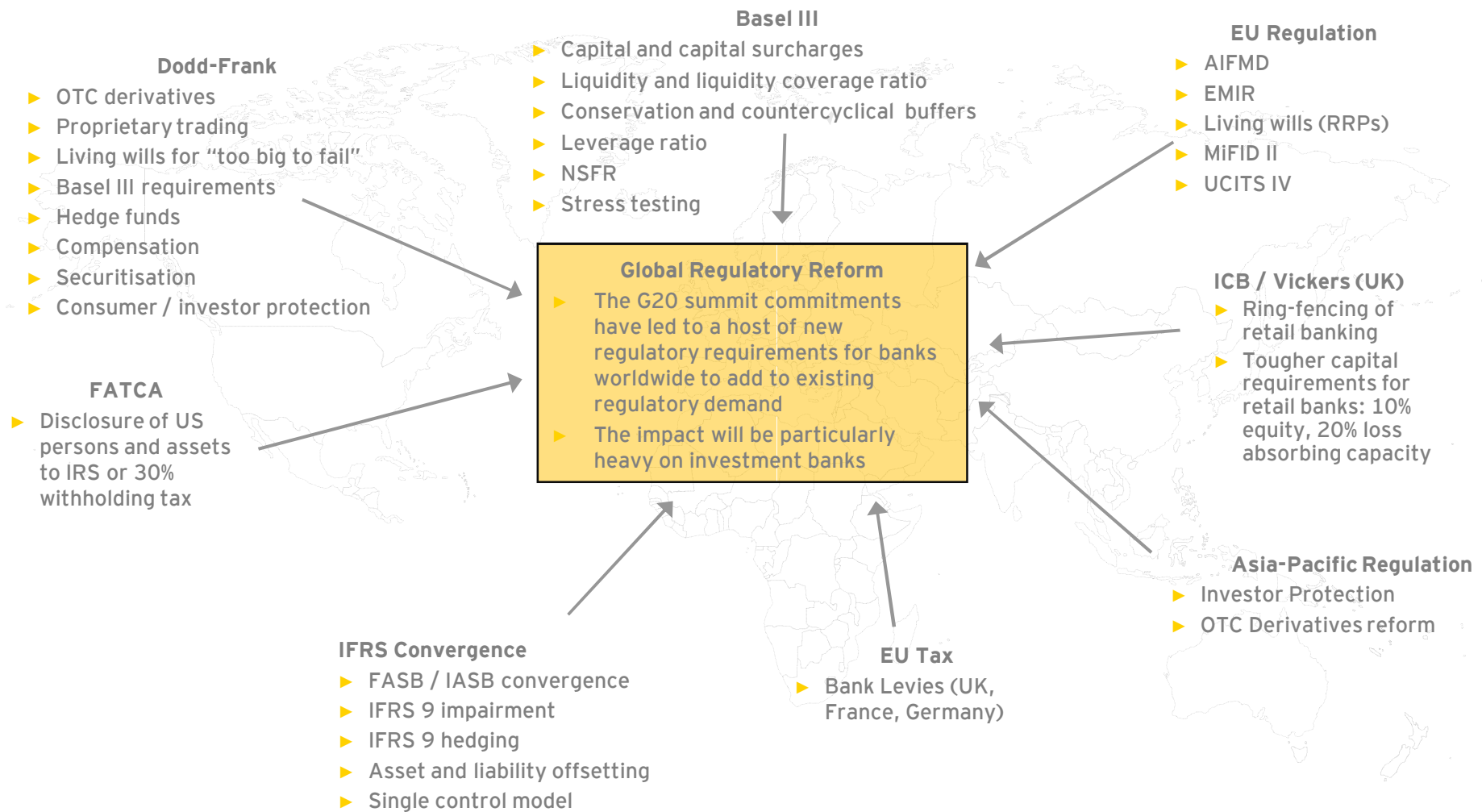
Charles Morel – Ernst & Young



Agenda

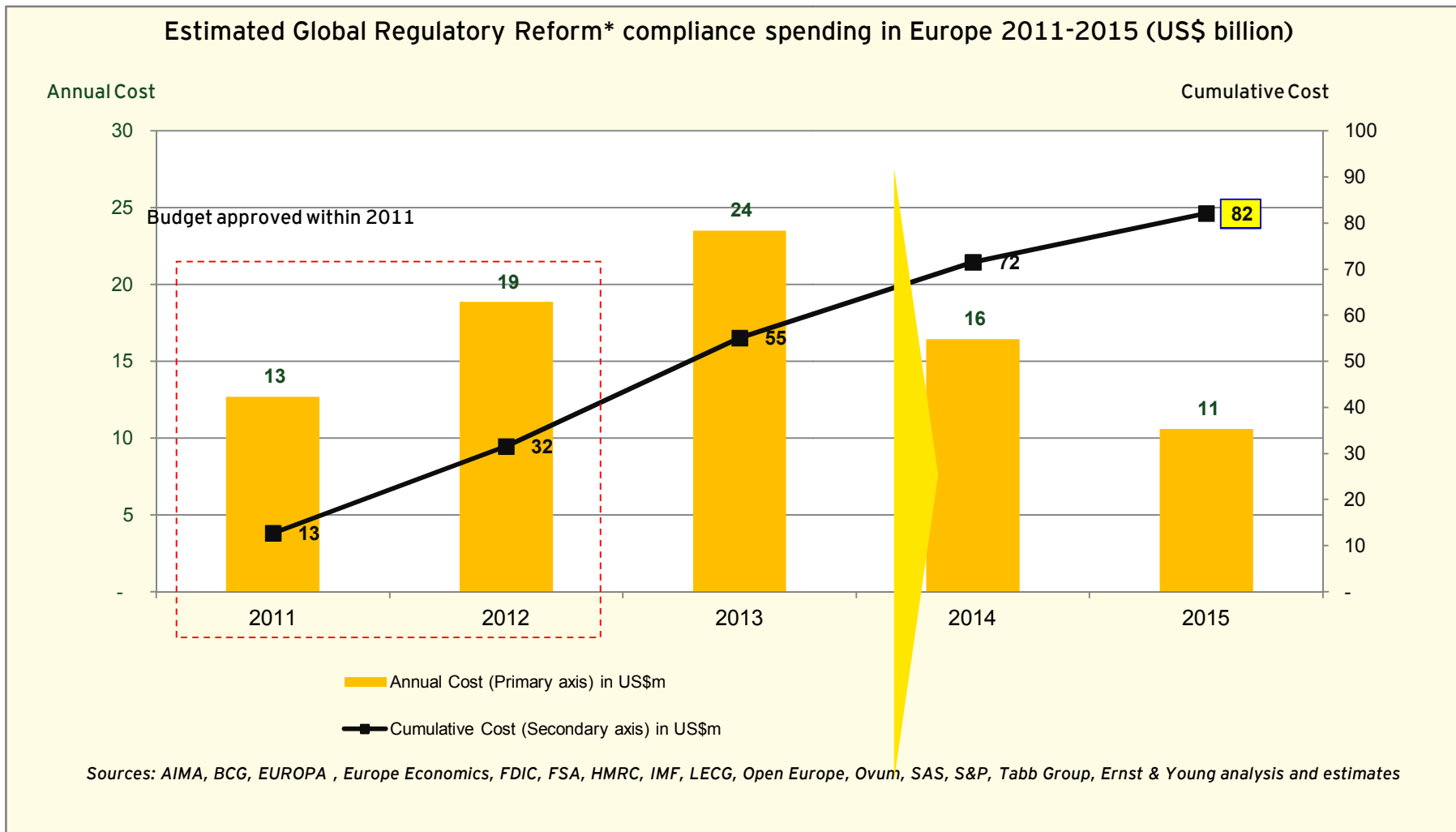
- ▶ The regulatory landscape
- ▶ Focus on Basel 3
- ▶ Basel 3 and IFRS timetable
- ▶ Building synergies between Basel 3 and IFRS

Global regulation



Note: Many "regulations" are still only at proposal, draft or consultation stage. Nevertheless, all are expected to reach final enactment, however much amended between now and then, and become enforceable law within the next 2-3 years. This is necessary to meet the

Cost of regulatory change



* Regulations included are: AIFMD, UK Bank Levy, Basel III, Dodd-Frank, EMIR, FATCA, IFRS Convergence, MiFID II, PRIIPS, UK RDR, RRP (living wills), and UCITS IV
 ** Assumes five years of income totalling \$6043.7bn and five years of operating costs totalling \$3516.7 derived from income and expense of EU-27 banks for the half-year ended June 2010 (latest ECB data available)

Basel III, strengthening the resilience of the banking sector

Regulatory change- Basel Committee Proposals approved by G20

Increasing the quantity and quality of bank capital

Quality of bank capital

* Tier1 will be largely equity and reserves

Quantity of capital

The overall ratios will rise and a leverage ratio to be introduced

- *Capital conservation
- *Countercyclical capital buffer
- *Forward looking provisions?

Capital requirements increasing

* Trading book and securitisations

Global requirements for liquidity buffers

Liquidity coverage ratio – requires stock of high quality liquid assets

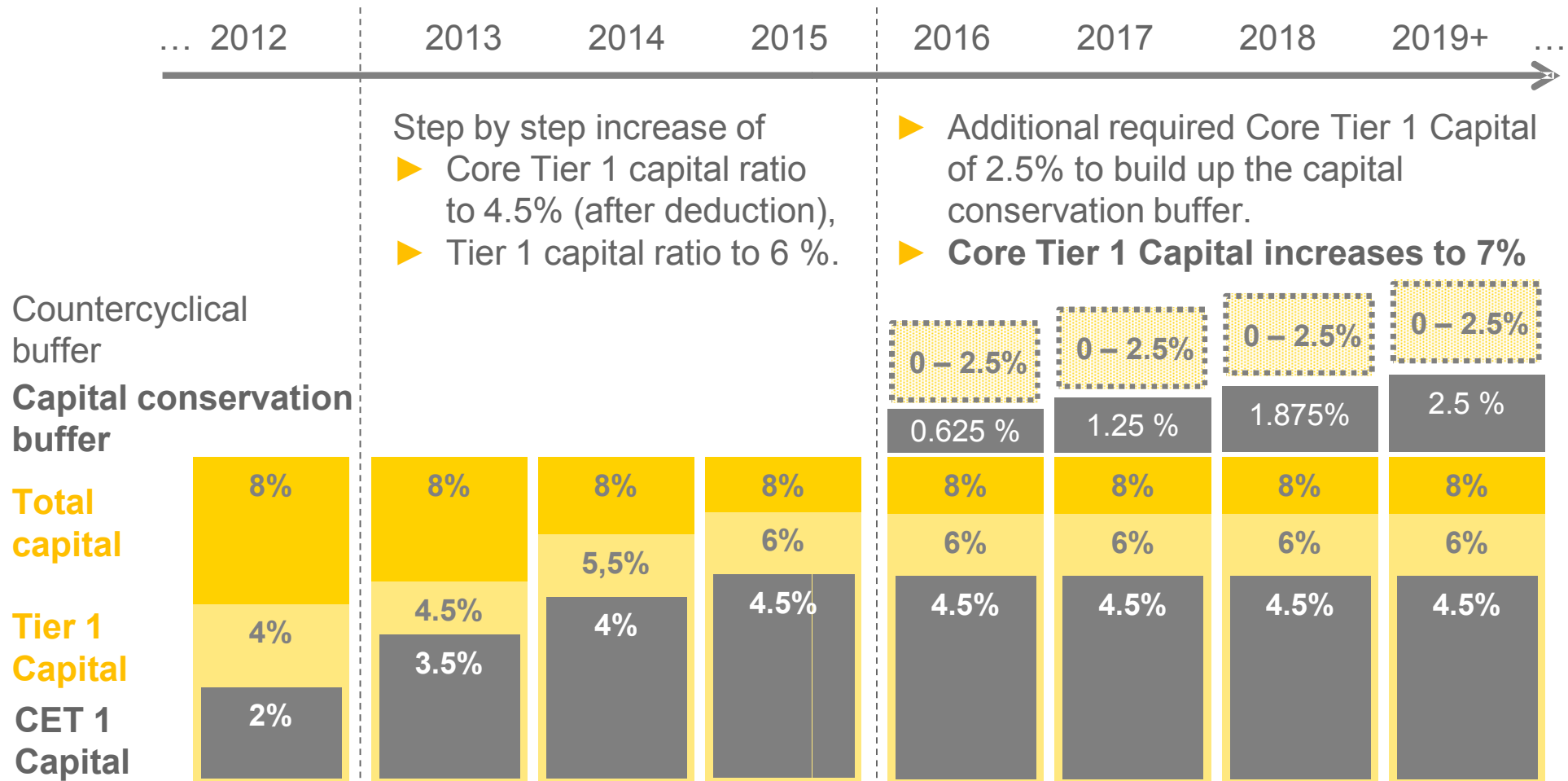
*Stable funding ratio- illiquid assets have to be backed by stable funding

Counterparty risk

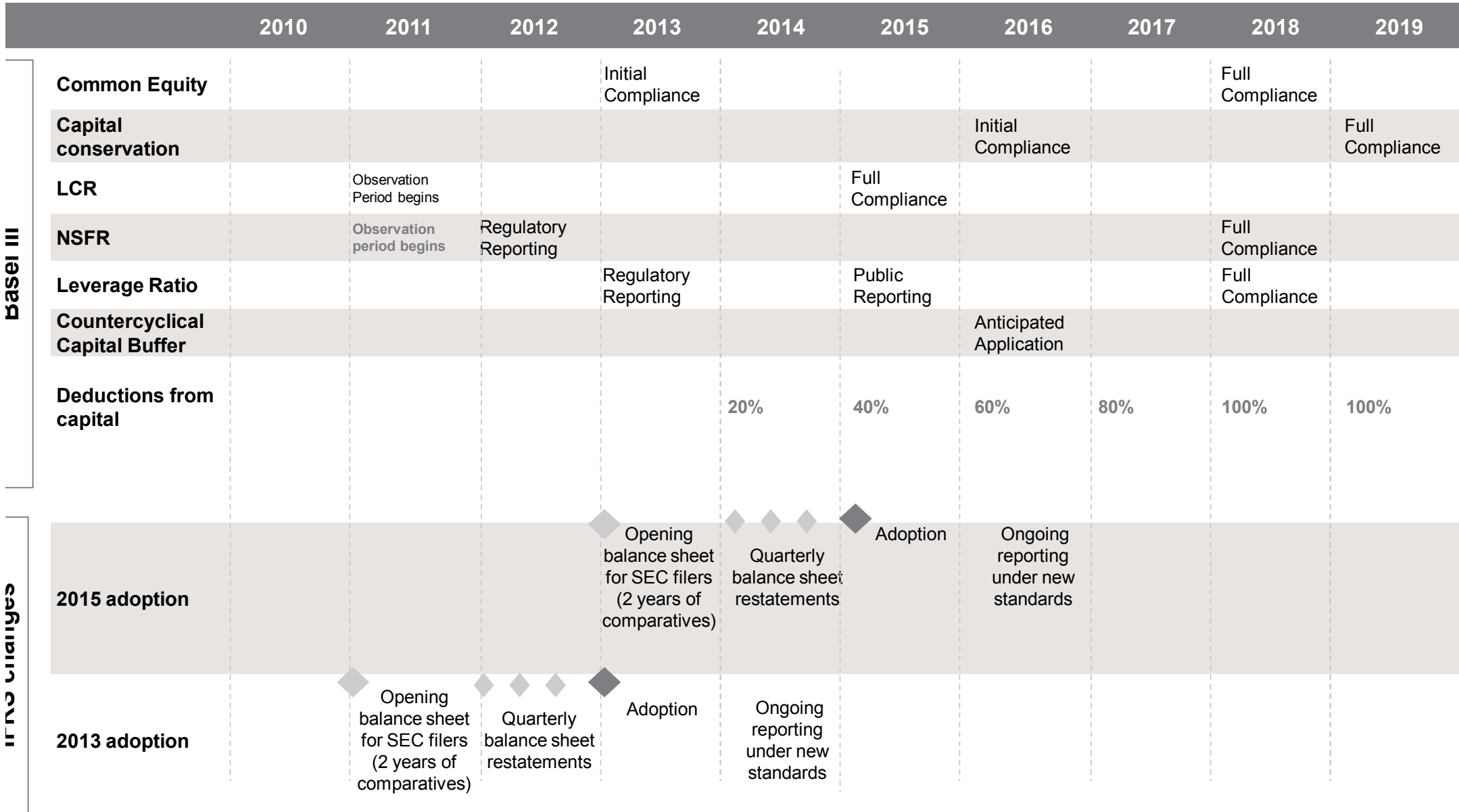
Changes to capital requirements

Changes to risk management

Basel 3, New Capital Requirements



Basel 3 and IFRS timetable



Basel 3 vs IFRS – synergies

- ▶ Credit Risk Models
 - ▶ Use Basel 2 models as a starting point to calculate Loan Loss Provisions under IFRS
 - ▶ Leverage from Basel 2 validation, governance and backtesting procedures
 - ▶ Simplification of the reconciliation process
- ▶ Reporting
 - ▶ IFRS 7 vs Pillar 3
 - ▶ Internal and External communication
- ▶ Capital optimisation
 - ▶ Expected Loss vs Provisions
 - ▶ Tier 1 and Tier 2 impacts
- ▶ Data
 - ▶ Same data required
 - ▶ Controls over data used
- ▶ Project Governance
 - ▶ Change projects run together
 - ▶ Similar key stakeholders (Risk, Finance and Regulatory Functions)