City Training UK

BASEL III LATEST REQUIREMENTS
(BASEL IV)
A HALF-DAY WEBINAR

Introduction

City Training UK is delighted to submit the outline for its next training on "Basel III Latest Requirements (Basel IV)". Basel III is a global regulatory framework on bank capital adequacy, stress testing, and market liquidity risk. It was developed in response to the deficiencies in financial regulation revealed by the global financial crisis of 2007–08. Basel III, which is currently implemented until 2019, is intended to strengthen bank capital requirements across the world and avoid another systemic banking crisis. Basel IV is a contested term describing the latest 2016 to 2017 changes made to the Basel accords. Regulators simply consider it as an extension to the Basel III reforms.

Course Objectives

This session provides participants with a detailed tour and review of the Basel accords issued by the Bank for International Settlement (BIS) and the ever-evolving regulation stemming from Basel II and Basel III proposals and the Capital Requirements Directive IV (CRD IV) in Europe. Through a mix of lecture and case studies, the workshop will equip participants to achieve a detailed understanding of the latest Basel guidelines, specifically on the following technical topics:

- Latest changes to the Basel requirements, namely credit risk, market and operational risk RWAs;
- Components of Tier I and Tier II instruments;
- G-SIBs and the impact of TLAC
- European banks and MREL;
- Leverage, LCR and NSFR ratios.

This document outlines the structure of the module. We hope this will stimulate further discussion and provide real value to the training participants.

If you have any questions, please email admin@citytraininguk.com or call +44 (0) 203 815 6530.

Why City Training UK?

Client Focus – A small London-based friendly team dedicated to its clients and tailoring courses to your business.

Experience and professionalism – Our trainers all held or are currently holding senior positions in the City or other leading financial centres and are talented lecturers.

Practical Programmes – Up-to-date, practical training including all the latest trends and recent case studies in your field

Session 1

Introduction

- How much capital do banks need?
- Overview of the regulatory banking framework
- Global rules for local implementation
- From Basel I to Basel IV
- Capital requirements directive IV (CRD IV)
- Stress testing of European banks
- The 3 pillars approach
- Pillar 1 available capital
- Pillar 1 risk weighted assets: credit risk, counterparty risk, market risk and operations risk
- Pillar 2A ICAAP and risks not covered by Pillar 1 (strategic, reputational risks, etc.)

Session 2

Available Capital

Throughout this module, participants review the current regulatory requirements, in particular Tier I and Tier II capital ratios and understand the computations behind all regulatory ratios.

- Common Equity Tier I (CET 1), Tier I, Tier II and Total Capital
- From accounting equity to common equity Tier 1
- Overview of key accounting adjustments
  - Goodwill and intangibles
  - Non-controlling interests
  - Deferred taxes
- Additional Tier 1 (AT1)
  - Perpetual preference shares
  - Non-cumulative dividend
  - No step-ups
  - Subordinated debt, mandatory and contingent convertibles
- Tier 2
  - Subordianted debt
  - Over 5 years of maturity
  - No accelerated repayment

Case study: participants will reconcile an IFRS book equity of a European bank to compute Tier I and Tier II capital

Session 3

Capital Ratios

- Minimum capital ratios: Basel III phasing from 2013 to 2019
  - 4.5% CET 1 , 1.5% AT1 and 2.0% T2
- Capital conservation buffer (CCB): 2.5%
- Countercyclical buffer (CCB) up to 2.5%
  - Based on national supervisor discretion
- Capital surcharge for Global Systemically Important Banks (G-SIBs)
  - Based on BIS list update every November up to 3.5%
- Total Loss Absorbency Capital (TLAC)
  - Global standard applicable to G-SIB banks only
- Minimum Requirement for own funds and Eligible Liabilities (MREL)
  - Applicable to credit institutions & investment firms in the EU

Session 4

Basel IV Changes

- Analysis of banks' impact
  - Aggregate increase of €1.0 to €2.5 trillion in additional RWAs expected
  - Sweden/Denmark/Netherland most affected by credit risk floor cap
  - France and United Kingdom impacted by change in operational risk
- Capital floors
  - RWAs floored by a percentage based on standardised approach
  - Phase-in from 50.0% in 2022 to 72.5% in 2027
- Revised credit risk from standardised approach
  - RWAs floored by a percentage based on standardised approach
  - Constraints on use of internal models
  - LGD floor to be applied
- Counterparty credit risk
  - Introduction of standardised approach for Credit Value Adjustment (CVA)
  - New standardised approach for calculating Exposure at Defaults (EAD) for derivatives exposures
- Market risk
  - Finalised in 2016
  - Revised boudary of trading book
  - Sensitivities based on new standardised approach
  - Internal models based on expected shortfalls
- Operational risk
  - New standardised approach to replace all prior methodologies
  - Based on size and historical operational loss data

Session 5

Basel IV Changes

- Highest impact on banks who relied on internal models for credit risk calculation (low Pd and LGD)
- Phase-in from 50.0% in 2022 to 72.5% in 2027
  - National regulator to cap incremental increase
  - Increase could be capped at 25% of RWAs before floor

Case Study: participants compute the impact of the output floors on RWAs

Session 6

Credit Risk – Standardised Approach

- RWA grid for sovereign and Public Sector Entities (PSEs)
- Discussion on multilateral development banks
- RWAs table for banks
  - Difference explained between external and standardised credit risk
  - Grade A to C for standardised assessment
- RWAs for general corporate exposures and specialised lending
- RWAs for residential real estate (cash-flow and non cash-flow based repayments)
- RWAs for off balance sheeet items and credit equivalent exposures
- RWAs for default exposures
- Credit risk mitigation (CRM) approaches

Case Study: participants compute the credit risk RWAs of a European bank based on a standardised approach

Session 7

Credit Risk – IRB Approach

- Standardised to foundation (F-IRB) and advanced approach (A-IRB)
- Understanding probability of default (Pd), loss given default (LGD) and exposure at default (EAD)
- Limitation on use of methods
  - Large corporates and banks A-IRB no longer premitted
  - Retail F-IRB and equity disallowed
- Parameter floors in A-IRB for LGD for corporates and retail exposures

Case Study: participants compute the EL of a European bank and then review the formula for calculating RWAs (based on asset class) from Pd, LGD and EAD

Session 8

Counterparty Credit Risk (CCR)

- Risk of counterparty defaulting prior to the final settlement of transaction
  - OTC derivatives
  - Financial assets designated at fair value
  - Reverse repurchase agreements and other secured lending
- Standardised approach for CCR (SA-CCR) measures EAD
  - Based on replacement cost and potential future exposure
- Risk of mark-to-market loss due to counterparty credit risk (CVA)
  - Basic and standardised approach
  - Standardise based on value at risk (VaR)

Session 9

Market Risk

- Risk of loss from movement in market prices
  - Interest rate, credit spread, equity, foreign exchange and commodities
- Revised standardised more complex approach
  - Sensitivities-based (delta, vega and curvature risks)
  - Default-risk charges and residual add-ons
- Internal models
  - Approval required from supervisory authority
  - Financial models based on global expected shortfalls, default risk charge and stressed capital add-on

Session 10

Operational Risk

- Risk of loss from inadequate or failed internal processes, people and systems or from external events
- Revised standardised approach
  - Based on Business Indicator (BI), marginal coefficient and scaling factor
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Case Study: participants compute the operational RWAs of a European bank based on the last three years P&L

Session 11

Pillar 2 and 3

- Pillar 2: risks not covered by covered by Pillar 1 (credit concertration risk, stress testing, etc)
- Pillar 3 focuses on the disclosure requirements

Session 12

Leverage and Liquidity Ratios

- Back-stop leverage ratio based on non-risk weighted exposure
  - G-SIBs buffer
- Liquidity coverage ratio (LCR)
- Net stable funding ratio (NSFR)

Case Study: participants calculate the Capital Requirements Directive leverage ratio of a European bank