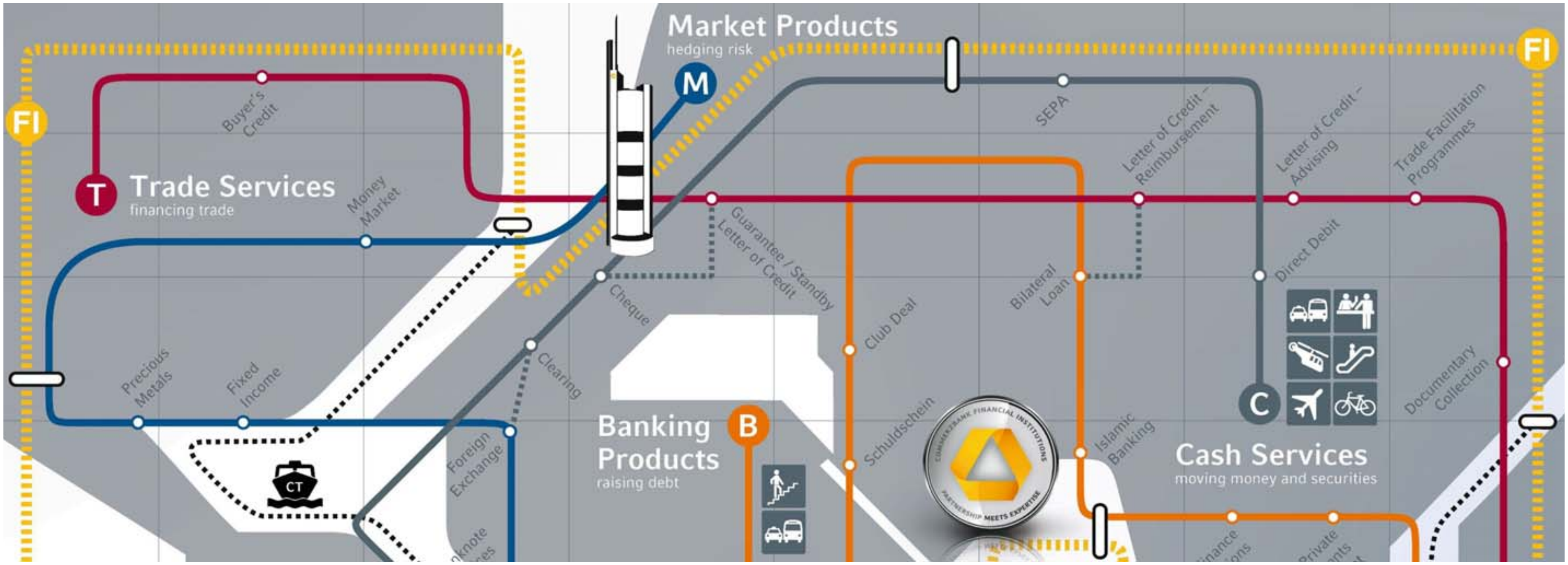

Basel 3

Новые акценты в торговом и экспортном финансировании в 2013 г.

Torsten Erdmann | Moscow | April 2013

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Basel III Basics

Regulator´s objective	Results	
1 Considerable qualitative and quantitative **increase of banks capital buffer** to be robust for future crises (also to prevent false risk incentives for investors)	› Significant **increase of core capital** from 2% to 4,5% › **Maintenance of capital** by implementing an additional buffer of 2,5% core capital (Capital Conservation Buffer) › If applicable, definition of additional capital requirements for **systemically relevant banks** (2,5%)	Capital
2 **Mitigation of cyclical effects** in stress scenarios	› Possible additional burden by implementing an **anti-cyclical capital buffer** of up to max. 2,5% of RWA's › Penalty for OTC derivatives	Capital
3 **Uncoupling of financial institutions** among each other and from the real economy	› Raised capital adequacy and notable obligations **for bank's dealings among each other – Asset Value Correlation (AVC) + 25%** › **Minimum liquidity ratios** for short term liquidity hedging as well as for long term congruent refinancing	Liquidity
4 Decoupling from possible **calculating and methodological errors**	› Implementation of a **robust and simplified „Leverage Ratio" (3%)** › Disregarding credit conversion factors and OBS-items	Leverage

1) Should an institute fall under a core captial ratio of 7%, it's not allowed to pay out any dividends and the loss is assigned to lower ranked bondholders

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Basel III Time Line

Quantity of Capital

	Current 2011	2012	2013	2014	2015	2016	2017	2018	Target 2019	2020	2021
Minimum Capital Requirements (+Buffer)[1)]	8%	8%	8%	8%	8%	11,125%	11,75%	12,375%	13%		
Anti-cyclical Buffer (max. Level)						2,5%	2,5%	2,5%	2,5%		
Capital Conservation Buffer (Core Capital)						0,625%	1,25%	1,875%	2,5%		
Supplementary Capital (Tier 2)	4%	4%	3,5%	2,5%	2,0%	2,0%	2,0%	2,0%	2,0%		
				1,5%	1,5%	1,5%	1,5%	1,5%	1,5%		
Non Core Tier 1	2%	2%	1%								
Minimum Core Capital (Tier 1)	2%	2%	3,5%	4%	4,5%	4,5%	4,5%	4,5%	4,5%		

+ Additional charge for systemic relevant Banks

10,5%

8% Minimum Capital Requirement

4,5%

Quality of Capital

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gradual Implementation of Deduction Items (Core Capital)				20%	40%	60%	80%	100%	100%		
Gradual Reduction of non-conform Core- / Supplementary Capital			90%	80%	70%	60%	50%	40%	30%	20%	10%
Existent National Contribution of Capital Grandfathering until 1. Jan 2018			100%					0%			

1) Percentage in Relation to Risk Weighted Assets (RWA)

Basel III & Trade Finance

	Facts	Consequences
Good	› Waiver of one-year maturity floor (AIRB approach)	› will reduce capital requirements for banks engaged in trade finance
Good	› Waiver of sovereign floor (standardised approach)	› Lowers CCF for banks that confirm LC from unrated issuers in EM
Fair	› 20% CCF confirmed (under risk-based measure)	› none
Bad	› 100% CCF for calculating leverage ratio	› Increase in cost (but not significant)

Basel III: Leverage Ratio

- Initially set at 3% (Tier 1 capital to total exposure)
- Trade LCs 100% notional rather than EAD of 20%.
- Performance Bonds / SBLCs 100% notional rather than EAD of 50%
- ECA covered loans at accounting value!
- Observation Period, migration to Pilar I in January 2018

- CRD IV/CRR recognizes that medium/low risk and medium risk off-balance sheet trade finance instruments should carry a 20% and 50% Credit Conversion Factor (CCF)

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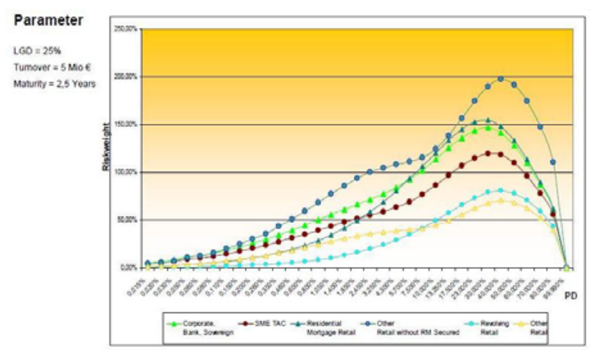
Basel II vs. Basel III: Effects of higher CCF

Assumption

› CCF up from 20% to 100% - , costs rise 5 times?

Fact

› Example: Customer with 100% risk weight, 1 year LC
risk capital for banks under Basel II is 20% x 8%
(CCF x Minimum Capital Ratio)
= 1.6% of the LC's face value
assuming cost of capital 10% (typical)
banks's cost of capital for extending this credit
= 1.6% x 10% **= 0.16% (of LC face value)**



› Basel III leverage ratio of 3%* high quality capital on exposure amount
I.e. cost of capital to support an LC **= 0.3% of face value** (100% CCF!)
(on top of LC fees which can range from 1% to 5% of face value!)

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ICC Trade Finance Register

22 Participating Banks (Phase II)

- ANZ
- Bank of America Merrill Lynch
- Bank of China
- Barclays
- Bayern LB
- BNP Paribas
- Citibank
- Commerzbank
- Crédit Agricole
- Deutsche Bank
- Ecobank
- HSBC
- ING
- J.P. Morgan Chase
- Natixis
- Royal Bank of Scotland
- Santander Global Banking
- Société Générale
- Standard Chartered Bank
- Sumitomo Mitsui Banking Corp
- UniCredit
- Wells Fargo

List as per November 2012

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ICC Trade Finance Register

Pilot Phase

- Portfolio level data provided by 9 leading international banks
- 5,22 million trade transactions, US$ 2,5 trillion worth of trade deals

Findings (focus on 2008-2010)

- Average tenor: 147 days (all products), 80 days (OBS products)

- Import L/Cs: default 0.077 percent, loss 0.007 percent
- Export confirmed LCs: default 0.09 percent, loss 0.03 percent
- Standbys and guarantees: default 0.013 percent, loss 0.0007percent
- Import loans – corporate risk, default 0.06 percent, loss 0.07 percent
- Import loans – bank risk, default 0.09 percent, loss 0.05 percent
- Export loans – corporate risk, default 0.29 percent, loss 0.017 percent
- Export loans – bank risk, default 0.17 percent, loss 0.01 percent

"…Trade gets paid!"

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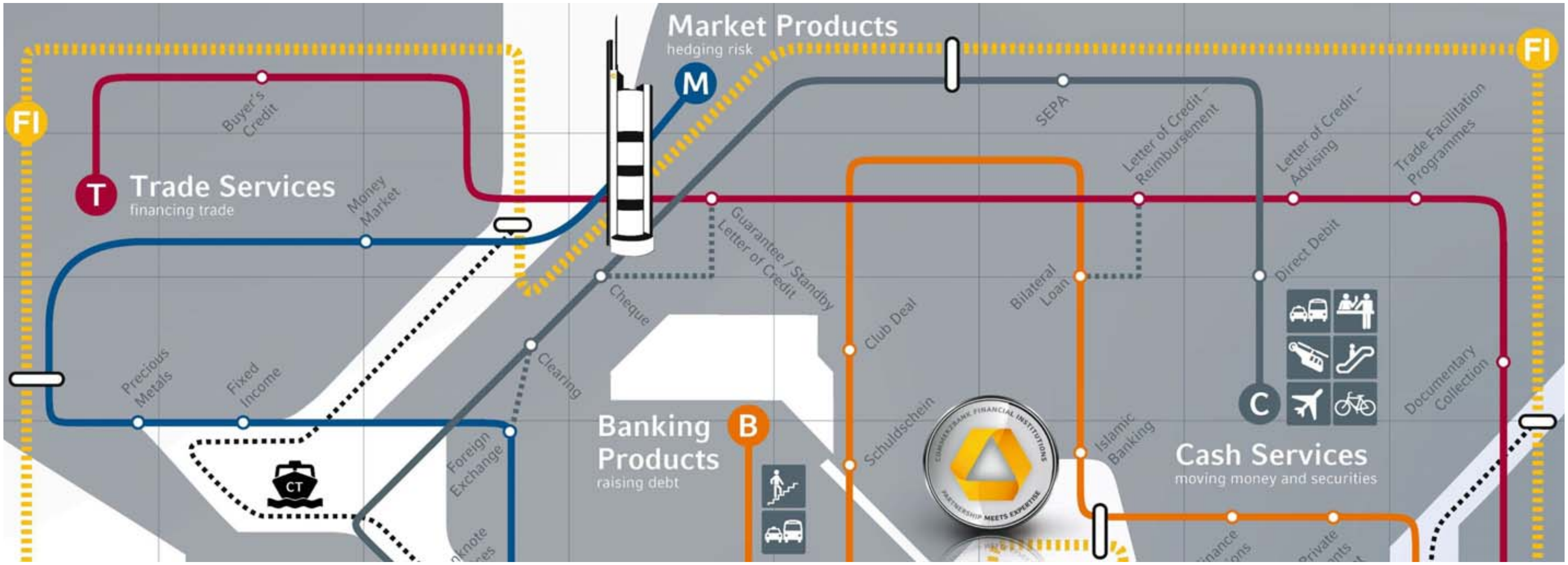

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