# BIS Conference on "Financial Stability: Towards a Macroprudential Approach"

## Panel Discussion

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# Presentation outline

- Introductory remarks
- Capital
- Pro-cyclicality
- Liquidity
- Other Regulatory Issues
- Consequences
- Conclusion

# Introductory Remarks

- This is my personal view and not that of DBS
- This view will be influenced by my vantage point
- A lot of very recent changes to the framework of future regulation
- Issues mentioned are just a highlight and by no means an exhaustive list
- Ultimately the impact can only be assessed after full calibration of all the rules

## Capital

- The treatment of what can be counted as capital is generally fair and clear as is the required transparency
- Regulatory adjustments to common equity make sense
- Question marks about the treatment of minority interests
- The effect of these rules will probably mean a big change for a number of  (Western) banks, but this can only be assessed when the minimum capital ratio has been determined and transitional measures have been laid-out

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# Capital

- Central Clearing of OTC derivatives.
  - Most inter-bank derivatives already under CSA
  - Limited product scope leads to inefficiency in terms of liquidity
  - Systemic risk and moral hazard

- Higher correlation number for banks. Unsure how the 25% increase can be justified if we substantially increase the total capital in the sector

- Dampening cyclicality
  - EL provisioning good but when can we tap into the provision pool

  - Non-cyclical PD proxy in IRB models
  - Capital buffers
  - Capital conservation methods (dividends)

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# Capital

- Leverage Ratio not a problem for most Asian banks, but that will not apply to Western banks

- Market Risk contains some good measures but would appear to contain a major disincentive to move to IMA

- CVA add-on
  - There may be issues to allocate the add-on to counterparties given that these calculatons will have to be performed in the market risk domain
  - Should this really be treated as a bond equivalent?

# Liquidity Rules

- Historically liquidity risk management has been neglected
- The new rules will address some of the gaps
- NSF seems to be more problematic than LCR
- Issues mainly relate to
  - Treatment of bank bonds and sovereign bonds
  - Outflow assumptions
  - ASF and RSF factors
  - Data issues with respect to segmenting clients
- We feel the rules could be firmed up with respect to separate treatment of currencies and legal entities
- Quantitative impact has to be seen in the light of capital rules

# Other Regulatory Issues

- Regulatory nationalism
  - Liquidity Rules
  - Subsidiarisation
  - FX caps
  - Minimum holding periods

- National discretion
  - Flexibility versus level playing field

- Transparency

- Proprietary trading and investments in PE and HF

- Quantitative impact (should only hit the culprits)

# Consequences

- System Cost
- Cost of Capital (BIII capital is more expensive)
- Funding Cost
- Shrinking of inter-bank markets
- More reliance on Central Banks for USD funding
- De-leveraging
- In reality it is hard to predict what this will mean for the cost of borrowing for our clients, but it will go up

# Conclusion

- Hard to argue with the new rules in terms of direction
- Some measures may bear the hallmarks of policy adjustment based on anecdotal evidence
- There is a cost to building in layers of conservatism
- Quantitative impact (should only hit the culprits) will ultimately be the litmus test
- Logically speaking there will be an effect on the willingness and ability to lend as well as an increased cost to borrowing. However it is hard to assess the level and duration of this impact