Loan Market Association

the authoritative voice of the EMEA market

LMA Presentation to the XI Bank Conference

Sochi 2013

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LMA background

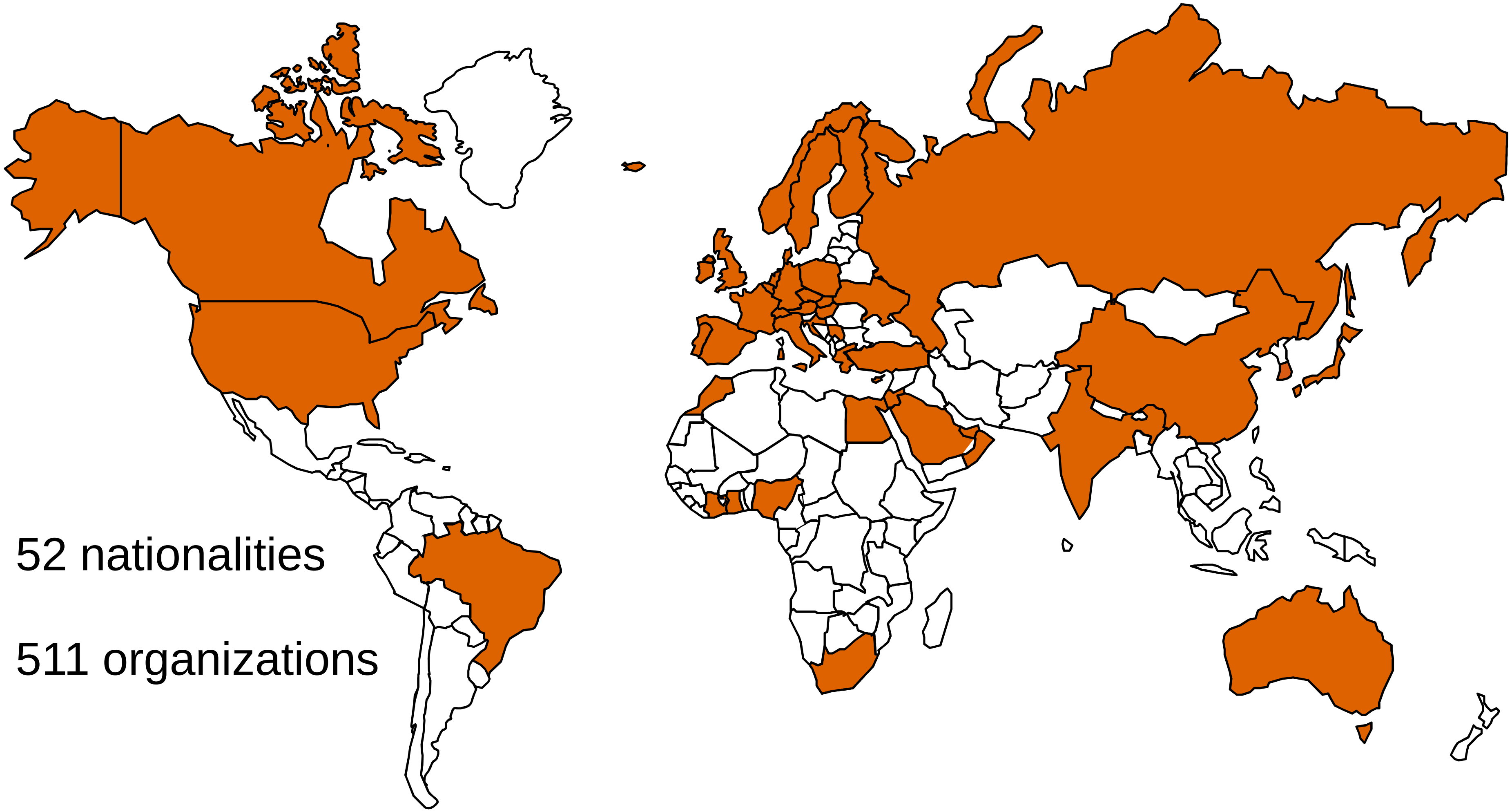
– Established in 1996

– 511 members
  • includes banks, law firms, non-banks and other

– Membership embraces 52 nationalities

– Membership at all time high

LMA Membership



52 nationalities

511 organizations

The Loan Market Association (LMA)

Objectives:-

- Foster market liquidity
- Promote the syndicated loan market in its broadest sense
- Act as an agent for constructive change
- Educate and inform all market participants

LMA Core Activities

– Provision of recommended documentation for both primary and secondary syndicated loan markets
– Establishing Market Practice and Guidelines
– Publishing updates, newsletters and other literature on important market issues

– Monitoring regulation, legislation and other factors affecting the market
– Lobbying on key issues

– Education/training throughout EMEA

Basel III - The Future of Regulation

Amendments to existing Basel II regime

- Capital requirements - Changes to capital definition and levels
- Leverage ratio - Unweighted ratio of 3% - i.e. bank's gross borrowings should not be more than 33 times the bank's Tier 1 capital – non risk sensitive capital requirement
- Liquidity Coverage Ratio (LCR) – segregation of highly liquid assets (assessed by liquidity weightings) capable of meeting net cash outflow over 30 days based on "worst case" assumptions
- Net Stable Funding Ratio (NSFR) – control on bank's short term (sub-1 year) funding – maintain a stable funding mix to endure a year long liquidity crisis

Liquidity Coverage Ratio

Assets will be categorised as Level 1 or Level 2a /2b to reflect their liquidity character

$$\frac{\text{Stock of high-quality liquid assets}}{\text{Total net cash outflows over the next 30 calendar days} = \text{outflows} - \text{Min}\{\text{inflows; 75\% of outflows}\}} \geq 100\%$$

Liquidity Coverage Ratio – Liquidity & Credit facilities

	Non-financial corporates, sovereigns and central banks	Banks	Other financial institutions*	Hedge funds, SPVs, SPEs and others
Credit Facility	10%	40%	40%	100%
Liquidity Facility	30%	40%	100%	100%

LCR – assumed drawdown rate on committed facilities
*securities firms, insurance companies, asset managers, pension funds, collective investment vehicles and (probably) investors acting as such.

Net Stable Funding Ratio

"Available Stable Funding": the portion of equity and debt financing expected as reliable sources of funds over a 1-yr horizon under conditions of extended stress

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} > 100\%$$

- RASF calculated as the sum of the value of assets held and funded multiplied by a specific required funding (RSF) factor for each asset type

NSFR - Funding (from stable to less stable)

Resource	Available Stable Funding factor
Total Capital (Tier 1 + Tier 2) + non Tier 2 pref shares	100%
Secured/unsecured borrowings > 1 year (with no lender/investor call)	100%
"Stable" retail and SME deposits < 1 year	90%
Less "stable" retail and SME deposits < 1 year	80%
Corporate unsecured wholesale funding / deposits < 1 year	50%
All other funding (incl. from financial institutions)	0%

NSFR - Assets (from liquid to less liquid)

Type of asset (ununcumbered)	Required stable funding factor (RSF)
Cash (ready to use), unextendable debt securities < 1 year	0%
Loans to financial institutions (not renewable or with call) < 1 year	0%
Marketable securities issued by PSE (0% risk-weight) > 1 year	5%
LCR Level 2 compliant Corporate bonds / Covered bonds AA- > 1 year	20%
Large cap index equity securities issued by corporates	50%
Liquid corporate bonds / Covered bonds A+ to A-, > 1 year	50%
Residential mortgage loans (35% risk weight)	65%
Loans to corporate / financial institutions (not 35% risk-weight) > 1 year	100%

Leverage Ratio

$$\frac{\text{qualifying capital}}{\sum \text{ (gross asset value)}} > \text{required ratio}$$

Leverage Ratio - Basel III

- **Non-risk-based backstop cap to gross exposures**
- **Probably 3%, probably tier 1 capital only**
- **Gross exposures:**
  - All assets, also cash and highly liquid
  - Ignore guarantees and collateral
  - Ignore netting (save for derivatives)
  - Include repos
  - Include full value of
    - Lending commitments
    - Trade finance commitments
    - Standby letters of credit and guarantees

Phase in of leverage and liquidity requirements

	2013	2014	2015	2016	2017	2017	2018
Leverage ratio	Parallel run		Disclosure (plus parallel run)				Pillar 1
Liquidity coverage ratio	Observation period		Pillar 1				
Net stable funding ratio	Observation period						Pillar 1

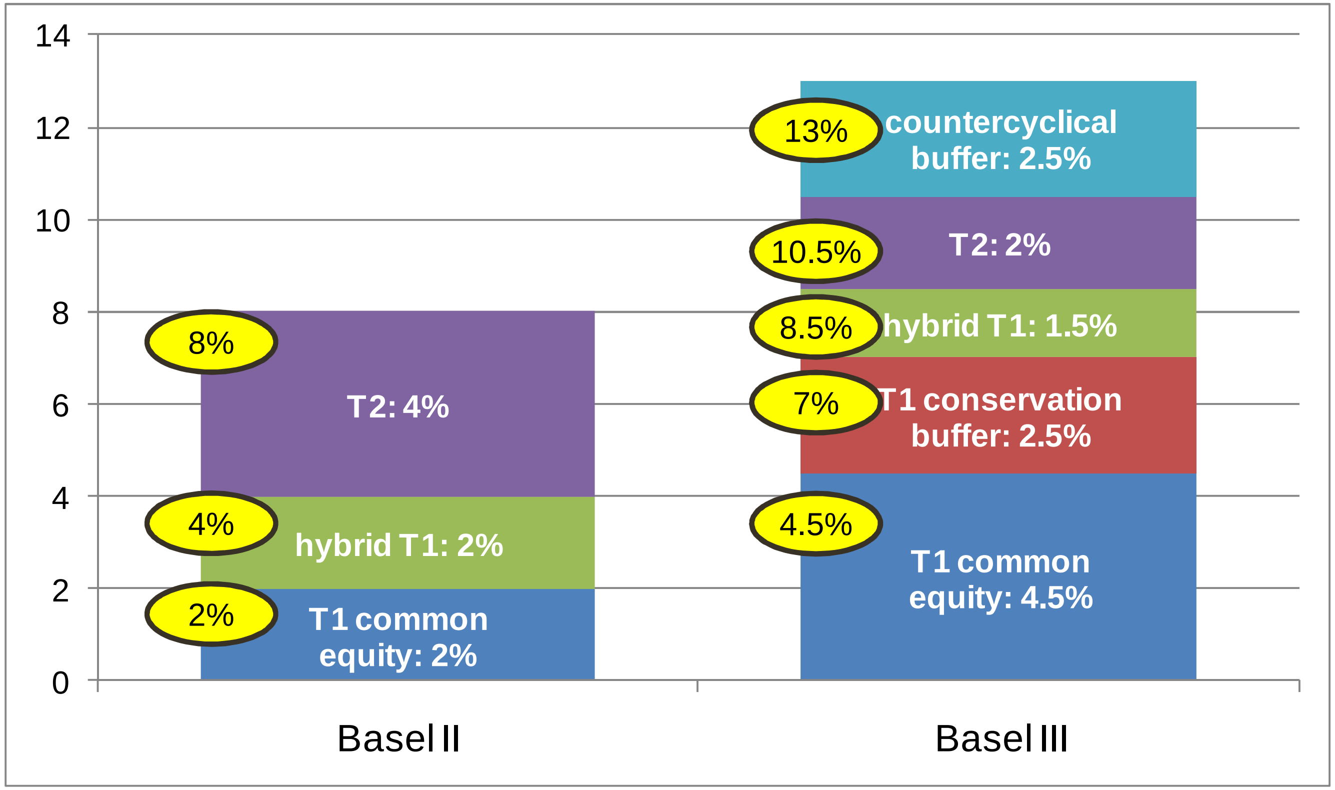
Capital Requirements - Raising the quantity and quality of capital

$$\frac{\text{Qualifying Capital}}{\text{Risk Weighted Assets ("RWA")}} > \text{Required Ratio}$$

i.e. $\sum$ (Risk Weighting x Asset Value)

Capital Composition Range

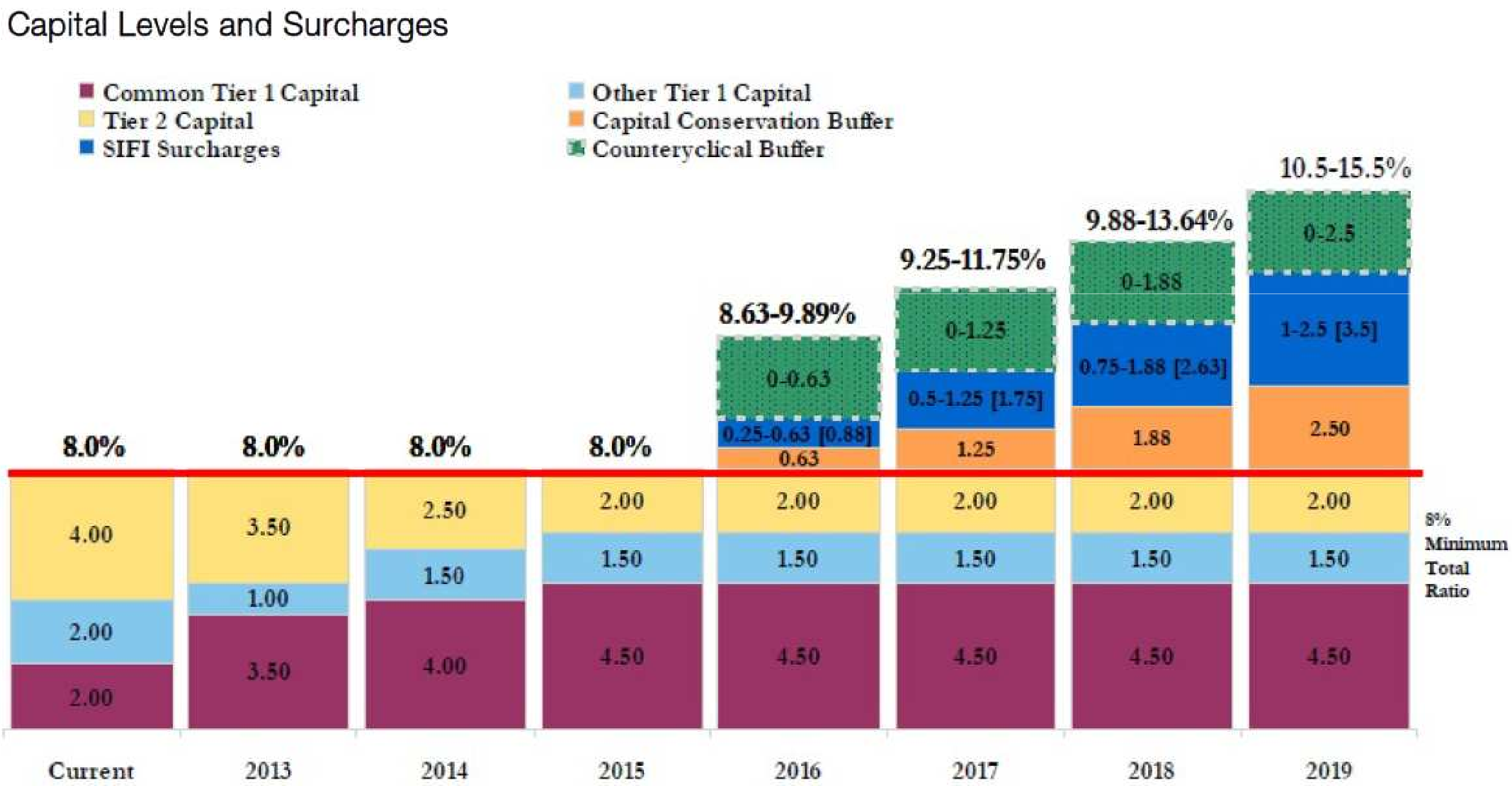
SIFI buffer: 4%?



Risk weighting: Premium for exposure to "financial institutions"

- 1.25 multiplier to correlation adjustment (ie up to 35% increase in risk weighting) for exposures to:
  - "large financial sector entities"
    - Financial sector entity which is above EUR 70bn assets where it or its subsidiary is subject to prudential regulation
  - "unregulated financial entities"
    - any entity whose main business is performing one of the listed activities
      - Lending
      - Leasing
      - Giving guarantees
      - Trading for own account
      - Portfolio management

Phase-in of capital requirements



Source: Institute for International Finance

Plus – phase in of deductions from CET1 from 2014-2018 and phase-out of non-qualifying capital instruments over 10 years from 2013

Impact on products: Loans vs. Bonds

- **Corporate loan**
  - not eligible for liquidity pool
  - if < 1 year, 50% to be covered by stable funding
  - if > 1 year, 100% to be covered by stable funding
- **Corporate Bonds**
  - if BBB- rating or better, eligible for liquidity pool subject to haircut
  - if < 1 year, no need for stable funding
  - if > 1 year, 20% (AA rating or better) or 50% (A- to AA-rating) to be covered by stable funding
- **Undrawn commitments (loans)**
  - 3% tier 1 capital requirement, because of leverage ratio
  - 10% must be invested in liquidity pool (or 30%)

What is the LMA doing in the regulatory area?

Lobbying/submissions activity

– UK
  - Bank of England
  - FCA/PRA
  - HMT
– Europe
  - European Commission
  - European Banking Authority
  - Basel Committee on Banking Supervision
  - MEPs
– USA
  - Federal Reserve Bank
  - Securities and Exchange Commission (SEC)
  - Internal Revenue Service (IRS)

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