For practitioners
By practitioners

BASEL IV

A game changer

The rules published by the Bank for International Settlements on 7 December 2017 are so far reaching that the banking industry has dubbed them "Basel IV".

Indeed, the drastic limits imposed on internal estimates and models are less an amendment than a radical departure from some of the principles- and innovations- that underpinned Basel II and III.

The objective of the "revisions" is to restore the credibility of risk-weighted assets calculations but, for banks, the price to pay is a maze of new regulations and reporting requirements. And for some, capital requirements will increase significantly.

All banks are affected: the enhanced risk sensitivity of the Standardised Approaches makes them more complicated to use and to report. IRB banks, on the other hand, will have to use the Standardised Approach to calculate the new capital floor, while Advanced Approach banks will have to use the three Approaches simultaneously.

Course description

The course puts the new rules in context and guides delegates through the revisions and their impact on the banks' various business lines. The main focus is on Credit Risk, but the new Operational Risk framework is also discussed.

The approach is practical focusing, through case studies and exercises, on the implications of the revisions on pricing and returns. and returns.

Audience

The Basel IV rules are essential knowledge not only for compliance and regulatory reporting staff but also for all those involved in the utilisation of the bank's capital and the pricing of transactions, such as senior managers, credit and risk management professionals as well as transactors and relationship managers.

Duration: 2 days

Prerequisites: understanding of basic accounting concepts

Jean-Charles Pirlet

Jean-Charles spent seven years in the Credit, Corporate and Investment Banking divisions of Citibank, including three years in the World Corporation Group in London as Vice-President managing a portfolio of UK multinationals on a worldwide basis.

He subsequently worked as Director of Project Finance and Acquisition Financing for Security Pacific in Frankfurt before returning to South Africa in 1993 as Head of Corporate Banking (Senior Vice-President) for the local operation of ABN-Amro.

Jean-Charles has broad credit experience gained over 20 years as credit analyst, credit officer and credit committee member at Citibank and ABN-Amro, covering Corporate and Investment Banking, including , inter alia, Syndications, Project Finance, Leveraged transactions and Asset securitisation.

He was also in charge of ABN-Amro's Financial Institutions unit for the whole of Africa for a number of years and acquired extensive specialist credit and transactional experience in that field.

He has provided in house training to international banks such as Citibank, Deutsche Bank, ING, Nordea, CIBC, Investec and many others, in some cases for more than ten years.

He has also assisted banks with the implementation of the Basel Accords in a consulting capacity.

He holds an LLM (Law) and an LLM (Tax Law) from the University of Liège in Belgium.

Day 1

Introduction

- Rationale and objectives of the Basel IV revisions.
- Overview- the realignment of Basel II-III's Approaches
    - Upgrade of the Standardised Approach (SA), which becomes Basel's new "floor".
    - Restrictions on the use of the Advanced Internal Ratings Based (IRB) Approach
    - Floors on IRB inputs and haircuts.
    - A new Approach to Operational Risks capital requirements.

Current status- Basel II and III: Fast track introduction - refresher

- Background to the Basel Accords
- The Basel I Accord-What has survived in Basel II-III-IV
- The Basel II Accord from a Basel IV perspective.
- The Basel III Accord and the "Basel IV" revisions.

Basel IV

1. Revision of the Standardised Approach for Credit Risk

- The Standardised Approach (SA) is the new Risk Weighted Assets output floor for the IRB Approaches.
    - The Basel I rules are replaced with the new Standardised Approach rules.
    - IRB banks must also use the Standardised Approach to calculate Risk Weighted Assets.
    - Calculation of the new floor.
- A more risk sensitive and granular Approach:
    - New regime and risk weights for exposures to banks, rated and unrated.
    - New regime and risk weights for exposures to corporates, rated and unrated.
    - New specific risk weight for SME's
    - New stand-alone treatment for Object Finance, Commodities Finance and Project Finance. (Specialised Lending).
    - LTV based risk weights for residential real estate.
    - New regime and risk weights for Income Producing Real Estate (IPRE)
    - More granular treatment for retail exposures
    - Three new regimes and risk weights for commercial real estate exposures
    - New Credit Conversion Factor (10%) for Unconditionally Cancellable Commitments.

- **Exercises-Case studies**

Application of the new rules to transactions across the various asset classes: Corporates, Banks, Residential and Commercial real estate, retail etc.

Calculation of Risk Weighted Assets, capital and returns based on the new rules.

Continued…

Day 2

2. **Revision of the Foundation IRB Approach for Credit Risk**

- New PD floors-Corporate
- New supervisory LGD for non-financial corporates
- New collateral haircuts and LGD parameters.

3. **Revision of the Advanced IRB Approach for Credit Risk**

- Withdrawal of the Advanced Approach for the:
  - Exposures to banks
  - Exposures to large and mid-sized corporates
  - The Foundation Approach replaces the Advanced Approach
- New input floors
  - PD floors-Corporate -retail
  - LGD floors-secured and unsecured
  - EAD floor

Exercises-Case studies

Application of the new rules to transactions across the various asset classes: Corporates, Banks, Residential and Commercial real estate, retail etc.

Calculation of Risk Weighted Assets, capital and returns based on the new rules.

Leverage Ratio Framework

- Refinements to the leverage ratio exposure measure

Operational Risk Framework

- Withdrawal of the existing standardised and advanced approaches
- The new Standardised Approach - Mechanics

Who we are

Analytiques C & F Ltd is incorporated in England and based in London. It specialises in all the aspects of Credit Risk including Financial and Credit Analysis, Capital requirements, the Basel II Accord, portfolio management and legal documentation.

It is a provider of both consulting and training services in these fields.

Where we work

Analytiques was set up to address the needs of the African market, in line with the long association of its directors and staff with the continent. Although this remains the company's main focus, the directors of Analytiques are routinely involved in training or consulting assignments in other parts of the world, mainly in Europe and the Middle East, thus keeping abreast with the latest developments in finance.

Our clients

Our clientele consists of banks or other financial institutions, either directly through bilateral contracts or through major international training firms to which we subcontract. The latter include 7City and Crown Agents in the UK and Ethan Hathaway in Hong Kong.

Our approach

All our trainers or consultants have strong academic qualifications, conduct their own research and produce their own study material. But because it is practical guidance and concrete solutions that our clients expect, years of hands-on senior management experience gained with leading international banks and in major financial centres are a mandatory requirement for our staff and what best describes our business franchise.

Analytiques

Our Competitive edge

Contrary to most training firms, the owners and directors of Analytiques are *also* the key subject matter experts.

We eliminate expensive intermediaries and pass on the benefit to our clients.

Also, you discuss your training requirements with experienced finance specialists, not sales people.

In-House Training

Although we do organise public courses at regular intervals most of our courses are delivered in-house, a cost effective solution that enables us to adapt the course contents to the precise requirements of our clients.

Some credit programmes for example have been run for more than 15 times for the same bank in the past 5 years.

In Africa, in-house courses have been provided to a large number of banks or corporates including, inter alia, Barclays (Kenya, Tanzania and Uganda), Nedbank, ABSA, Standard Bank, Rand Merchant Bank, Trust Bank (Ghana), National Bank of Malawi or Shell Africa.

See our website for a non-exhaustive list of in-house clients in other countries.