Impact of Basel III on Dutch banks

Our approach to an efficient Basel III implementation, based on your bank’s strategy and risk appetite

May, 2011
Our understanding
Basel III addresses the weaknesses that the recent financial crisis has revealed. It focuses on risk management, capital and liquidity. We believe that banks should not only aim to comply with the minimal requirements set forward in Basel III, but in parallel reconsider their strategy and risk appetite.

Our vision
To implement Basel III regulation, a bank should manage three dynamic forces:
1. **Strategy**: how do Basel III requirements affect the strategy and risk appetite of the bank?
2. **Regulation**: do other regulatory developments related to risk, capital and liquidity management affect the envisioned implementation approach?
3. **Approval**: how will the Dutch Central Bank (DNB) monitor and approve the implementation?

Although Basel III will only fully take effect in 2018, the market and DNB expect a bank to start the implementation of aligning the bank’s strategy and risk appetite to Basel III much earlier on. The ‘first regulatory evaluation moment’ for the different topics may be found in the mind map on the opposite page and on our website.

**Double Effect’s approach to enable the strategic goal of the bank**

**Start with the end in mind**: obtain DNB approval at minimal cost by assuring alignment with the bank’s Basel III implementation strategy

1. **Understand client’s strategy**
   The client has a vision how to align its business strategy and risk appetite to adhere to Basel III (i.e. Basel III implementation strategy)

2. **Perform gap analysis**
   Together with the client we perform an analysis on the relevant policies, processes, models and data quality to shift from the current situation to the Basel III aligned target situation

3. **Define implementation scenarios**
   Provide tailor made implementation scenarios incorporating other regulatory requirements and the DNB approval process

4. **Implement together with client**
   Together with the client we work on a project basis to deliver within time and budget and create awareness to the bank’s internal organisation on business impact

5. **Obtain DNB sign off at minimal cost**
   Assignments have a clear beginning and end; we do not leave until everything works, is approved and aligned with the bank’s Basel III implementation strategy
 Basel III impact on a generic Dutch bank

**Risk**
- Improve pricing of risk, better capital allocation, enhanced risk measurement and management and set new risk appetite
  - Goal of a bank
  - How
    - Calculate Credit Valuation Adjustment (CVA) and include in pricing
    - Measure market risk in CVA and include in capital
    - Stress testing of counterparty credit risk (trading book)
    - Jan. 2013
    - Model validation and periodic review of counterparty exposure models
    - Jan. 2013
    - Implement revisions to market risk framework (e.g. IRC and stressed VaR)
    - Jan. 2012
    - Active management of CVA risk
    - Review businesses in light of their new RAROC
    - Move OTC derivative contracts to central counterparties
    - Re-assess product offering in light of new capital requirements

**Capital**
- Manage capital to comply not only with minimal regulatory requirements but also with market expectations
  - Goal of a bank
  - How
    - Manage capital in line with new / adjusted capital qualification
    - Jan. 2013
    - Raise the quality of the capital base by introducing new products such as COCO’s
    - Jan. 2013
    - Raise the quantity of the capital base by retaining earnings and issuing qualifying capital
    - See our website for full overview
    - Jan. 2014
    - Implement exposure definition / calculation
    - Jan. 2013
    - Determine strategy towards the new leverage ratio
    - Implement exposure definition / calculation
    - Jan. 2013
    - Implement capital conservation and countercyclical buffer according to new regulation
    - Include the new buffers in the capital planning
    - Jan. 2013
    - Discuss with regulators to anticipate countercyclical buffer
    - Implement requirements DNB ILAAP process
    - Nov. 2011
    - See our website for full overview of monitoring tools

**Liquidity**
- Manage risk and capital requirements
  - Goal of a bank
  - How
    - Minimise the cost of long term funding
    - Centralise the liquidity management function to mitigate suboptimal funding
    - Optimise window of opportunity for attracting funding worldwide
    - Meet the new liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements
    - Improve systems for detailing the classification of funding usages
    - Jan. 2011
    - Manage liquidity not only for base currency but also for currencies in which the bank has a large exposure
    - Track the liquidity coverage ratio also for non base currencies (e.g. USD)
    - See our website for full overview of monitoring tools

First regulatory evaluation moment

For full overview see our website: [www.doubleeffect.nl](http://www.doubleeffect.nl)
We are specialised in business improvement in the heart of financial institutions

Why choose Double Effect?
› Successful track record in the Dutch banking industry
› Niche player with strong knowledge of Banking and Basel III
› Experience in key Basel III areas, such as CVA and Liquidity Management
› Experience in many areas of banks enables Double Effect to look across silos and see impact on the full value chain
› Basel II, Risk, ALM and Treasury project management experience
› Flexibility and customisation of our approach
› Strong knowledge of the business, processes and products

Interested?
› Please feel free to contact one of our front runners:

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