



# Q2 Compliance Webinar: Basel III

What You Need to Know

April 2017

Presented By:



**STRATEGIC  
TREASURER**

*Consultants in Treasury*

 Coming Up...



# LIQUIDITY RISK

- » *Short-Term Investments*
- » *Risk Management & Credit Evaluations*
- » *Debt*

**STRATEGIC TREASURER**  
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**CAPITAL ADVISORS GROUP**

[2017 Liquidity Risk Survey](#)



**STRATEGIC TREASURER**  
WEBINAR

## SURVEY RESULTS Treasury Fraud & Controls

**APR 27**  
11:00 AM (EST)  
1.2 Credits

**Bottomline Technologies**

**Craig Jeffery**  
Managing Partner  
Strategic Treasurer

**Michael Vigue**  
VP Product Strategy, Cyber  
Fraud and Risk Management  
Bottomline Technologies

**CTP** Certified Treasury Professional  
**FP&A** Certified Corporate Financial Planning & Analysis Professional

[2017 Treasury Fraud & Controls Survey Results Webinar](#)



## 2017 SURVEY RESULTS

GLOBAL TREASURY FRAUD & CONTROLS  
REPORT & INFOGRAPHICS

**STRATEGIC TREASURER**  
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[2017 Treasury Fraud & Controls Survey Results Report](#)



# About the Presenter



*Today's Presenter:*

**Melody Joy Hart, CPA, CTP, FP&A**

*Senior Consultant  
Strategic Treasurer*

*Melody Hart* joined Strategic Treasurer in the fall of 2013 as a treasury and finance leader with global experience in consumer products, automotive, wholesale, retail, distribution, manufacturing, not-for-profit and service/consulting. She is consistently recognized as an expert in streamlining processes, instituting controls and policy, developing and implementing internal controls and compliance systems, evaluating credit and liquidity needs, negotiating favorable credit terms as well as managing diverse and complex financial systems and processes. Proven record in managing relationships with banks, rating agencies, vendors, and customers.

Melody received her MBA in Accounting & Finance from Keller Graduate School in Chicago, Illinois. She has a BS in TV Journalism from Bradley University in Peoria, Illinois and is a Certified Public Accountant (CPA). She is a Certified Treasury Professional (CTP). She studied Corporate Financial Management and Pension Benefits Management at the University of Michigan's Executive Education Program.

Our mission is to  
***elevate & enhance***  
the ***practice of treasury***  
***by advising*** individual clients  
***& informing*** the industry at large.

**ADVISE:**

- Treasury Technology
- Treasury Security
- Corporate Compliance
- Working Capital Optimization
- Financial Risk Management
- Bank Connectivity & Onboarding
- Bank Fee Management

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 **Agenda**

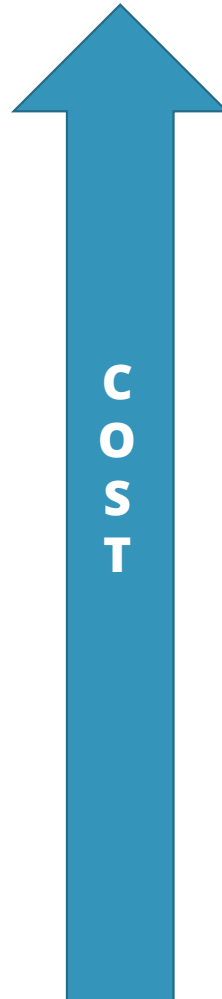
- 1. History**
- 2. Purpose & Goals**
- 3. Key Provisions**
- 4. Impact on Corporates**
- 5. Regulatory landscape**
- 6. Action Items**
- 7. Update on FBAR/Section 385**





# Regulatory History

- 2019 – Basel III phase in complete
- 2014 – FRB - GISB
- 2010 Basel III introduced-616 pages
- 2004 Basel II introduced – 347 pages
- 1992 Basel I implemented
- 1988 Basel I introduced – 30 pages



**Basel I:**  
Measure of capital requirements with a focus on credit and market risk.

**Basel II:**  
Adds in operational risk and increases minimum capital ratios. Never fully implemented

**Basel III:**  
Adds Leverage and Liquidity measures

 Poll Question



## How do you rate your knowledge of Basel III

- Basic
- Intermediate
- Expert
- Basil is my favorite spice.



## Key Terms

**International Banking Regulatory Framework**

**More Capital**

**Better Capital**

**Stronger Liquidity**

**Additional Transparency**

**Liquidity Coverage Ratio (LCR):**

The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks.

**Net Stable Funding Ratio (NSFR):**

The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off- balance sheet activities.

**Leverage Ratio:**

Intended to restrict the buildup of leverage in the banking sector to avoid destabilizing deleveraging processes that can damage the broader financial system & economy



## Basel III Goals

### Goals:

To further stabilize banking.

- Banks must be able to withstand a 30 day system-wide liquidity shock.
- To strengthen governance and transparency

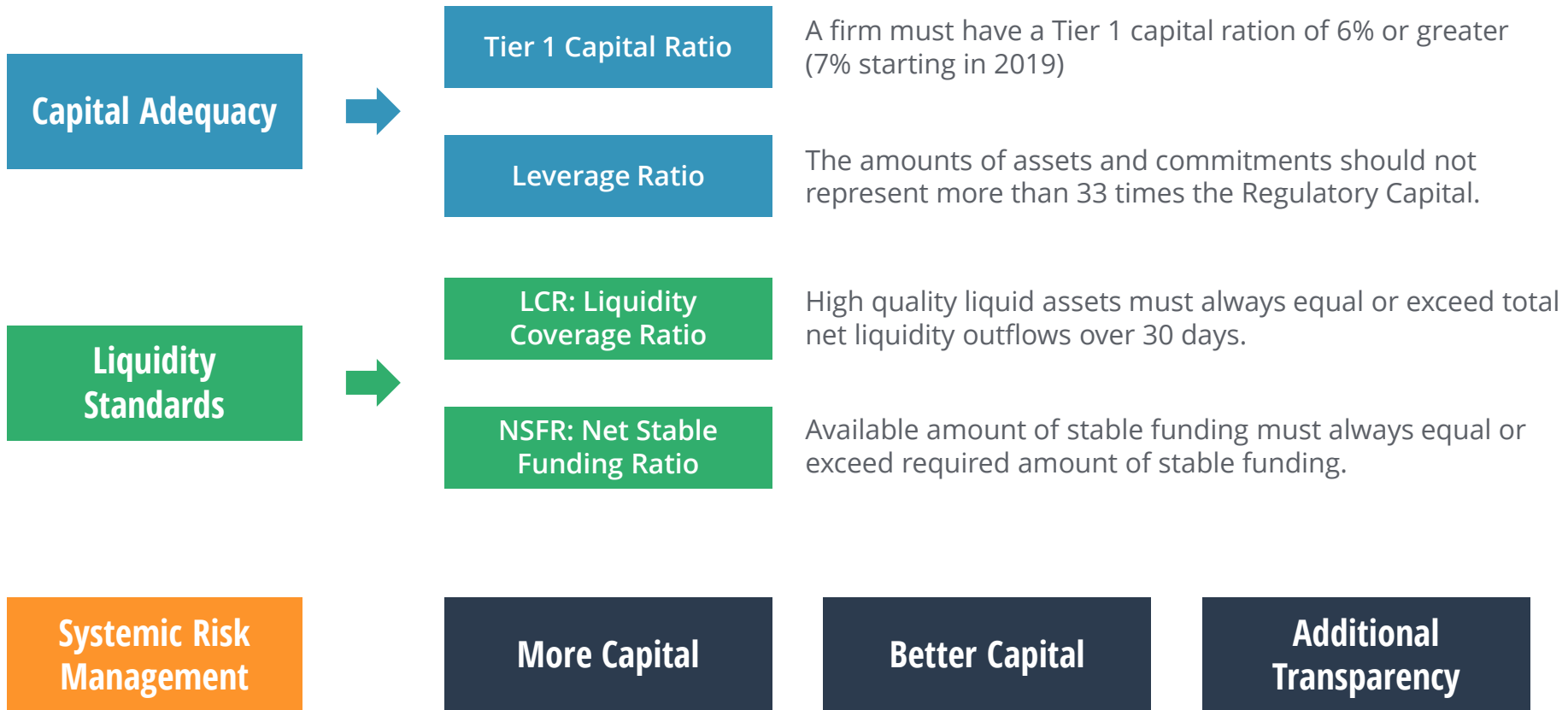
### Results:

Raises the cost of funding in normal times and ultimately will raise the pricing of bank products.

- Regulatory changes have direct and indirect effects on bank profitability.
- Basel III is a banking regulation that has an impact on corporations.



# Basel III: International Banking Regulatory Framework





# Capital Requirements

## Risk based Capital

Measures Tier 1 capital (equity) against risk weighted assets (RWA)

### Tier 1 Capital (Equity)

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Risk-Weighted Assets

## Leverage Ratio

Measures Tier 1 capital (equity) against *both on and off balance sheet assets*

### Tier 1 Capital (Equity)

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Assets (on & off B/S)



## Minimal Liquidity Requirements

### Liquidity Coverage Ratio

- Tests if a bank can weather a 30-day financial shock
- Minimum of 100%
- Assets weighted for liquidity
- HQ reflects liquidity even under stress

### High Quality Liquid Assets

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### Stressed Net Cash Outflows

### Net stable funding ratio

- Available Stable Funding are liabilities that are weighted for stability in a crisis
- Minimum of 100%
- Required funding for banks on and off B/S assets.

### Available Stable Funding

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### Required Stable Funding

**Global Systemically Important Financial Institutions (G-SIFIs) are required to have additional capacity during a shock.**



## Poll Question

**Where are you in the process of evaluating your banks in relation to their compliance with Basel III?**

- Have evaluated some of my banks
- Have completed the evaluation
- Plan to evaluate them this year
- Plan to evaluate them next year
- No plans to evaluate them

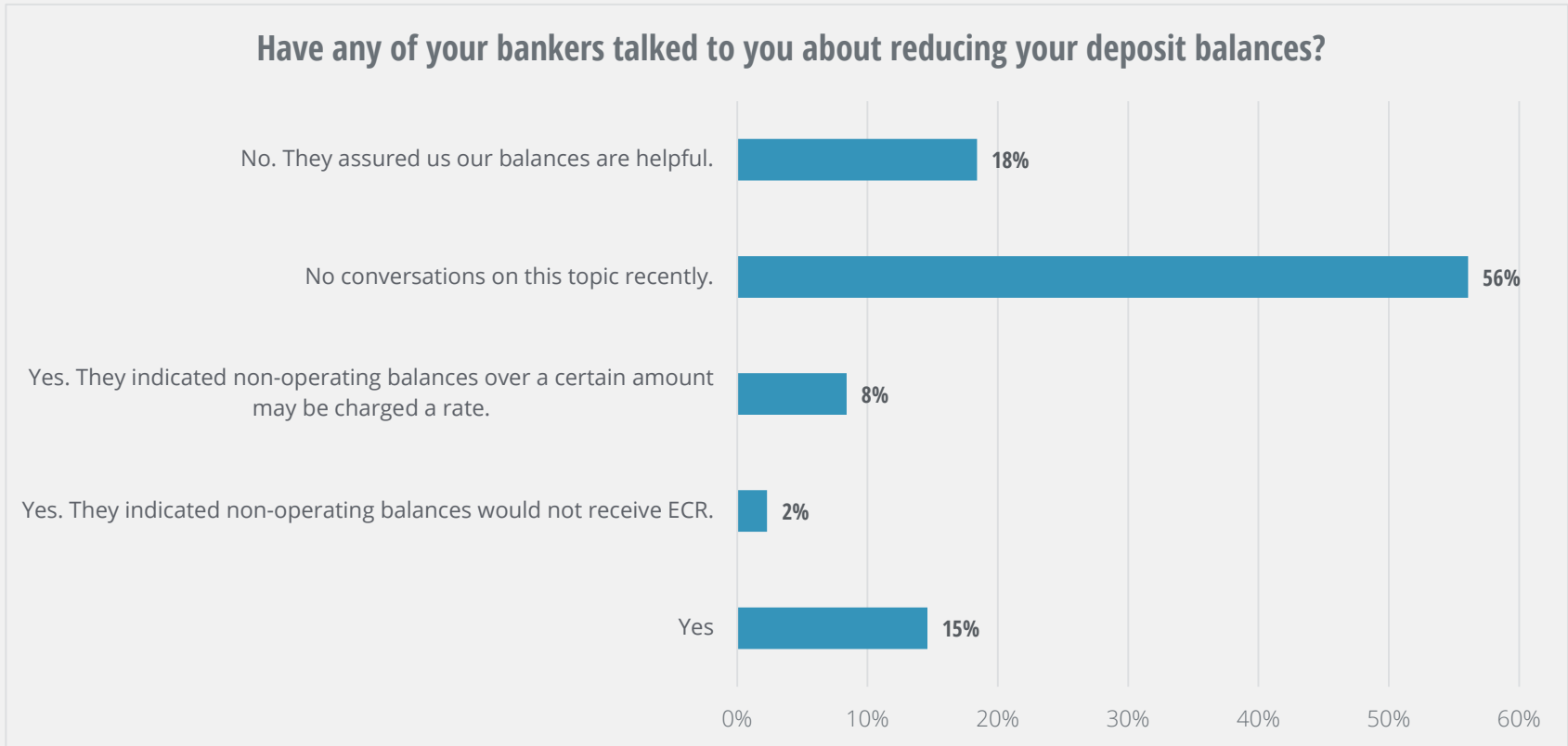


# Impact of Basel III

Bank Impact	Bank Potential Reaction	Corporate impact
Increased Capital requirement, lowering returns	<ul style="list-style-type: none"> <li>• Increased pricing to obtain higher return</li> <li>• Increase higher-rated and shorter tenor loans</li> <li>• Preference for drawn lines</li> <li>• Product/business changes</li> </ul>	<ul style="list-style-type: none"> <li>• Higher banking costs</li> <li>• Credit availability reduced</li> <li>• Increased pressure for ancillary business</li> <li>• Limit unused liquidity</li> <li>• Loss of banking partner</li> </ul>
Increased and higher quality liquidity buffers, increasing costs	<ul style="list-style-type: none"> <li>• Preference for retail (small) vs. wholesale deposits</li> <li>• Need for assets with high liquidity</li> <li>• Design of products that consume less capital</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of availability for short term deposits – shift to longer term deposits, requiring robust cash forecasting</li> <li>• More fees in lieu of balances</li> <li>• Need for greater visibility and access to trapped cash</li> </ul>



# Reducing Balances



\*2016 Strategic Treasurer and Capital Advisors Group Liquidity Risk Survey



## Poll Question

**How do you think Basel III will affect your company? (check all that apply)**

- Reduced credit availability
- Increased financing costs
- Increased fees
- Reduced ECR or Negative Interest on deposits
- My bank may exit a product line I use
- Bank may drop my company
- No impact on my company



# Capital Use & Return

	High Capital Use	Low Capital Use
High Return	<ul style="list-style-type: none"> <li>• Hedges/Swaps</li> <li>• Uncommitted Facilities</li> <li>• Supply Chain Finance</li> </ul>	<ul style="list-style-type: none"> <li>• Share Repurchase</li> <li>• Bond/Equity Underwriting</li> <li>• M&amp;A</li> <li>• Domestic &amp; Int'l Cash Management</li> <li>• Pension/Asset Management</li> <li>• Purchasing Card</li> </ul>
Low Return	<ul style="list-style-type: none"> <li>• Stand-by LC</li> <li>• Investment Grade Funded Term Loans</li> <li>• Multi-Yr RCF</li> <li>• 364-day RCF</li> </ul>	<ul style="list-style-type: none"> <li>• Lockbox</li> <li>• Commercial Paper Dealer</li> <li>• Internet FX</li> </ul>





## Effect on Relationships



**Banks with higher regulatory costs usually also have broader relationships.**

- **The 8 US G-SIFIs can mitigate their high costs through fee-based services**



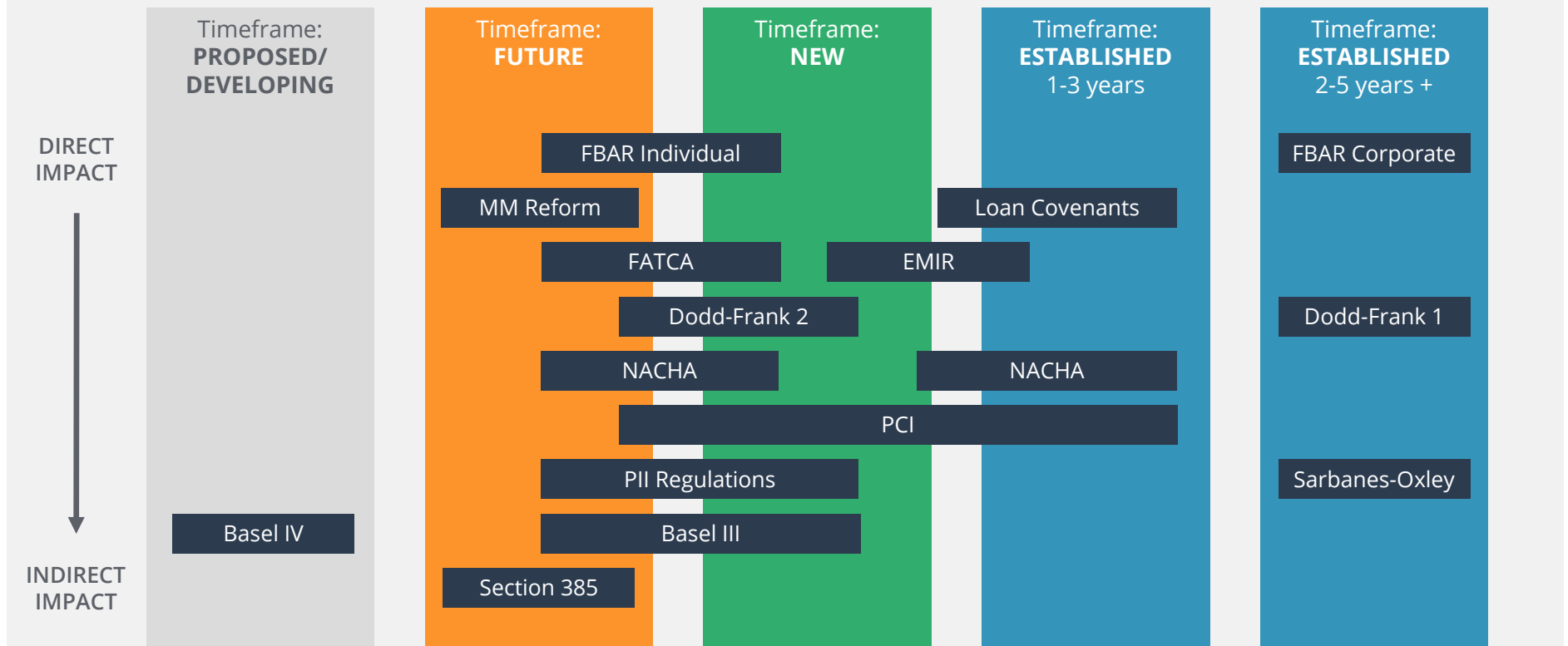
**Banks with fewer relationships or more narrow relationships likely have lower cost of capital**



# Alligator Closest to the Boat

*You need a process to handle the alligator.*

## Calibration of Attention





## Poll Question

### Have you developed a playbook for dealing with regulatory changes?

- We deal with these changes when they arise
- We count on other sources to inform us
- We have a process, though it is not formalized
- We plan to develop a process this year



## Action Items

-  **Have a playbook to assess regulatory changes and developing plans**
-  **Review with your banks where they are in implementation process**
  - Do they meet Basel III metrics?
-  **Understand where you stand in your banks' profitability under Basel III to determine which are at risk to your business needs**
-  **Assess your bank counterparty risk under Basel III**
-  **Assess whether your credit needs fit with the banks' B/S**
  - If it is not a fit, consider what you will need to negotiate and protect your liquidity
-  **Work now to get visibility to balances and improve cash forecasting**
-  **Get access to trapped cash**
-  **Address potential changes needed to investment policy**



## Other Compliance Updates

### FBAR Individual Filings:

Those who are individuals with signatory authority over but no financial interest in accounts have had a deadline extension. [Read about that here](#)

### Section 385:

Documentation requirements set out and refined

- Applicable to debt issued on or after Jan 1, 2018. Recharacterization effective date 4.4.2016.

Bifurcation Rule Eliminated but still reserving the right to use.



## Section 385 Updates

### A leading practice: begin documenting now.

1. **System.** Assess your system's capability to handle these requirements.
2. **Inventory.** Track your intercompany debt inventory
3. **Template.** Create documentation template
  - Create master agreement(s)
4. **Credit Process.** Determine credit process and (debt capacity analysis)
5. **Document.** Document each intercompany loan
6. **Checkpoint.** Establish documentation checkpoint
  - Inventory
  - Credit Analysis



# Contact Information



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### Strategic Treasurer

is a consulting firm advising on treasury, financial risk and risk technology issues. Their seasoned treasury consultants efficiently work alongside financial executives in treasury, finance, and other related areas within corporate, government, education, and not-for-profit entities.

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