



BNP PARIBAS
CORPORATE & INVESTMENT BANKING

Review of Liquidity Regulation, Stress Testing and Possible Future Direction

Panel Discussion

AFGAP ALMA
Seminar June 5th 2009

- **The French Liquidity regulation is being updated**
- **Months-long discussions between Commission Bancaire (French regulator) and French banks (represented by AFGAP)**
- **The new regulation has just been passed and will become applicable from June '10**
- **It is based on a 2 tier approach:**
 - standard method (basically change in current ratio weights)
 - advanced approach (internal liquidity model)
- **It is derived and consistent with Basel II and CEBS principles**
- **Key points: comprehensive (territories, business lines, currencies...), cash flows (from the next few days to long term), survival period, stress tests / contingency plans, liquidity buffer / reserve**
- **New frontier: implied non contractual off balance sheet commitments (SIV, Asset Management...). The Liquidity consolidation scope may differ from accounting consolidation process!**

- **French Liquidity Regulation is 20 year+ old**
- **Preemptive actions from Gouvernement ... and no French bank failure**
- **Rather limited impacts of Lehman and Icelandic banks' failures**
- **Current French liquidity regulation is ratios-based, with the most stringent one based on the 1 month liquidity ratio built from hard coded and conservative factors to weight each balance sheet item**
- **This simple approach has proven to be effective**
- **French banks are mostly « originate and hold » business modelled**

- **Self Regulation has failed: Regulators *are* needed**
- **Supervision delegation has not proved to be a safe bet (Iceland)**
- **All supervisors are expected to strengthen the rules**
- **Supervisors are more demanding... *home* supervisors!**

- **Regulation should be business models-consistent (no One Size Fits All)**
 - **Sounds familiar with IFRS?**

- **Competition among supervisors may be an effective exploratory method to find regulatory best practices**

- **...a set of core metrics would help**
 - benchmarking
 - communicating
 - rationalizing banks' report processes

- **AFGAP is working on defining core and simple risk metrics**



- **What's the supervisors-accepted risk tolerance?**
- **How should we take into account actual systemic risk experience?**
- **Should we stress current crisis even more to build our stress test?**
- **ALM may have to substitute for Finance when reporting to supervisors**



- **Momentum for all liquidity related issues**
- **IT enhancements are easier to prioritize**
- **« Level Playing Field » for internal liquidity charge in the industry**