

ECB MMCG - 18 February 2009

## Impact of Crisis on Internal Organisation / Policies

# Collateral Management/ Access to Secured Markets / Position management

- Lower quality assets
  - Lack of liquidity for many asset classes in commercial markets
  - Increase reliance on Central Bank facilities or unsecured funding when available
  - Change in framework
  - Mobilise collateral as standing or contingent source of funding
  - Trader focus on asset valuation more than on funding issues
  - Focus on financing of more asset classes (Equity Repo)
  
- High quality assets
  - Change in the balance sheet: Asset reduction / Increase in deposits
  - Excess short term liquidity positions to be managed at the Treasury level
  - As much an asset manager that a liability manager - Create expertise
  - Limited capital available and low appetite to maintain/increase unsecured credit exposure
  - Extensive use of short term bond and repo markets
  - Focus on Central Bank eligible 0% RWA assets
  - Maximise use of CCP in EUR
  - Multicurrency Triparty agreements
  - Work with IB to put in place Capital Efficient short term secured funding structures on lower quality assets
  - Search for “yield” - FX Basis impacts - ability to deliver return to depositors in all currencies.
  - Use of the JPM Broker dealer for execution - Market share, infrastructure, staff.
  - Expansion of Treasury Balance sheet
  
- ➔ Corporate focus on increasing Treasury in the funding/reinvestment process / Control of the “box” (Contingent/Alternative funding sources/ optimise Central Bank access).

## Funds Transfer Pricing Policy / Stressed Funding

- Increase cost of liquidity
  - Spread widening - LIBOR Spreads - OIS/LIBOR Basis
  - Very steep short term credit curve
  - Difficulty to access capital markets
  - Cost of guarantee programs
  - USD premium
  - Increased secured cost of funding for Credit and Equity assets
  - Reduced securitisation capacity
- Instable FX basis - impact on currency funding / internal arbitrage opportunities
- Change Internal FTP rules to reflect change in firm profile
  - More focus on liquidity value of assets and liabilities
  - Liquidity premium based of LT COF of the firm - frequent review
  - Short term funding cost based of O/N rates + Cash capital charge/Haircut
  - Creation of an Investment Bank Treasury. Focus on cost of funding allocation at the IB level
- Review of liquidity risk framework
- More sophisticated CFP plan / stressed liquidity analysis
- Understand impact of higher liquidity constraints that might be driven by regulatory changes.