

Parallel session 1

1A. Harmenjan Sijtsma (Rabobank International) - Beyond BISIII: the Fundamental Review of the Trading Books

BIS III is not enough. Banks will face new challenges regarding the Fundamental Review of the Trading Books that involves a substantial change of the market risk regulation. This presentation considers these changes whereby focusing on the modelling and system impact. Further, a look behind the screens will be provided in the way the Dutch banks cooperate with the Nederlandse Vereniging van Banken (NVB) in their response to this consultative regulation.

1B. Bert-Jan Nauta (Double Effect) - The Funding Value Adjustment – real or imaginary?

In this presentation the concept of Funding Value Adjustment (FVA) for derivatives is introduced. It is shown how the FVA depends on assumptions for the elasticity of funding costs of banks. Two distinct assumptions are contrasted and applied in the Black-Scholes framework.

1C. Ton Vorst (VU University/Tinbergen Institute/ABN AMRO) - Risk and Return in Credits

CDO tranches had large credit spreads compared with corporate bonds with the same rating. We explain that this is due to credit risk premia and exposure to systemic risk.

1D. Mikhail Voropaev (ING) - Analytical Credit VaR

Analytical techniques are presented which allow fast and precise computations of credit portfolio VaR and its allocation. The techniques may be of interest to financial institutions for Credit Economic Capital calculations and are presented as an alternative to time consuming Monte Carlo simulations. The underlying portfolio model is the industry standard Moody's KMV Portfolio Manager model.

1E. Paul Wessels / Jeroen Heijnen (KPMG) - The impact of the accumulation of regulation on the Dutch banking sector

KPMG has commissioned a study conducted for VNO-NCW (the leading employer's platform) and the Dutch banking association (NVB) into the possible effects of 38 new and adjusted regulatory rules applicable to the Dutch banking sector. Although studies on the effects for European and global banks exist, it is the first time that a study focuses on the Netherlands.

The effects of 4 regulatory rules (Basel III, bail-in-debt, deposit guarantee scheme

and bank tax) have been captured in a quantitative model. Due to the fundamental impact of Basel III on the balance sheets and availability of solely public information, the modeling was especially conceptually challenging. In what is assessed as the most likely scenario the effects lead to a cumulative balance sheet reduction of about EUR 200 billion (9% of current assets) up to and including 2015. Furthermore, a parallel repricing of about 80-90 basis points seems to be necessary for banks to meet regulatory targets and market expectations.

Our presentation presents the results of the quantitative analysis, the set-up of the model and the key assumptions underlying it.

Parallel session 2

2A. Harmenjan Sijtsma (Rabobank International) - Beyond BISIII: the Fundamental Review of the Trading Books

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2B. Joeri Potters / Roger Lord (Cardano) – The Ultimate Forward Rate – Background, Issues and Impact

New regulation has come (or might come in the case of Solvency II) into effect whereby insurers and pension funds will have to discount their liabilities using a curve that at the long end differs markedly from the swap curve. This curve is known as the Ultimate Forward Rate (UFR) curve. We discuss its background, practical and theoretical issues the prescribed term structure has, as well as the impact on the market.

2C. Michael H.G. Schröder (London School of Economics) - Mechanisms for no-arbitrage term-structure modelling, with applications to interest-rates and realized-variance

"If there is a reversal of ECB policy tomorrow, what about our positions?"

"If volatility continues to rise over the next week, how to quantify this?"

The talk discusses work fresh from our desk on mechanisms for the construction of no-arbitrage term-structures which enable this, with two distinguishing features moreover. Firstly, the short-rates thus constructed comply with stylized facts such as mean-reversion (over a finite time horizon) and positivity, and, secondly, the

rates constructed keep their tractability when applied to derivatives valuation.

2D. Frank de Jonghe / Siobhan Tipping (Ernst & Young) - Market impressions on counterparty credit risk: from CVA over IMM to FVA

There can be little doubt that determining the fair value of derivatives contracts continues to be one of the key issues for the banking sector in 2012. The new IFRS accounting standard on fair value measurement, and the new charge under Basel III related to valuation adjustments as a result of credit, mean that institutions have to fundamentally rethink their approach to managing counterparty credit risk. Frank de Jonghe and Siobhan Tipping from Ernst & Young will present a survey, which we believe offers a deeper insight into crucial industry issues around capital, modeling, risk management and accounting issues. In this survey, they will capture the progress of 19 of the largest, most sophisticated dealing houses applying either IFRS or US GAAP in order to benchmark current practice and key themes for calculating credit and funding adjustments to fair value.

2E. Ton Broekhuizen (NIBC) – Multiple discount and forward curves

Prior to the credit crisis valuation of standard interest rate derivatives was straightforward. A single curve was used both for discounting and forwards. In the current market the valuation has become much more complex and to a certain extent subjective:

- Multiple forward curves have to be used for O/N, 1M, 3M and 6M reprising frequencies
- Collateralised and non-collateralised derivatives have to be discounted differently
- Because of non-zero cross currency spreads the market value of a derivative for a EUR based bank differs from the value for a USD or GBP based bank In this lecture we present a methodology, currently implemented by NIBC, to construct a consistent framework for the valuation of standard interest rate derivatives, taking into account to above mentioned trends.