
Banking

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Fall Semester 2024

Course: Banking [2206]

wrap up-class

Disclaimer: The views expressed are my own and do not necessarily represent the views of Banco de Portugal.

To be covered today

- Key Banking Industry Trends for 2022
- Recap/Close-up:
 - ❖ Monetary policy instruments: TLTROIII and reserves
- An overview of the main topics of the course

Key Banking Industry Trends for 2022 and beyond



Regulatory landscape



A renewed relation with the client



Criptoassets, tokens and payments



Banks' new ESG functions



New working methods

Interest rates in the current juncture: Reference rates

Recap

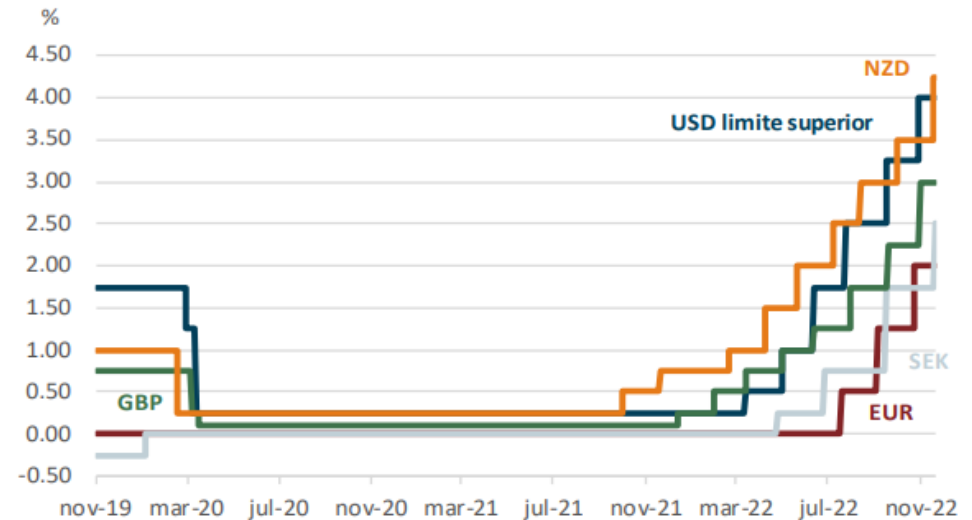
Reference rates for the Euro Area

The Governing Council of the ECB sets the key interest rates:

- **MRO**: the interest rate on the main refinancing operations - provides the bulk of liquidity to the banking system.
- **DFR**: the rate on the deposit facility – used by banks to make overnight deposits with the Eurosystem.
- The rate on the **marginal lending facility**, offers overnight credit to banks from the Eurosystem.

Reference rates also for other jurisdictions

[30 Nov. 2023]			
Reference rates	level (%)	Weekly change (pp)	Annual change (pp)
USD Fed Funds	5,25 - 5,50	0	100
EUR MRO	4,5	0	200
EUR DFR	4,0	0	200
BoE Bank Rate	5,25	0	175
JPY Policy Rate	-0,1	0	0



Open market operations: TLTROs & Others - Liquidity

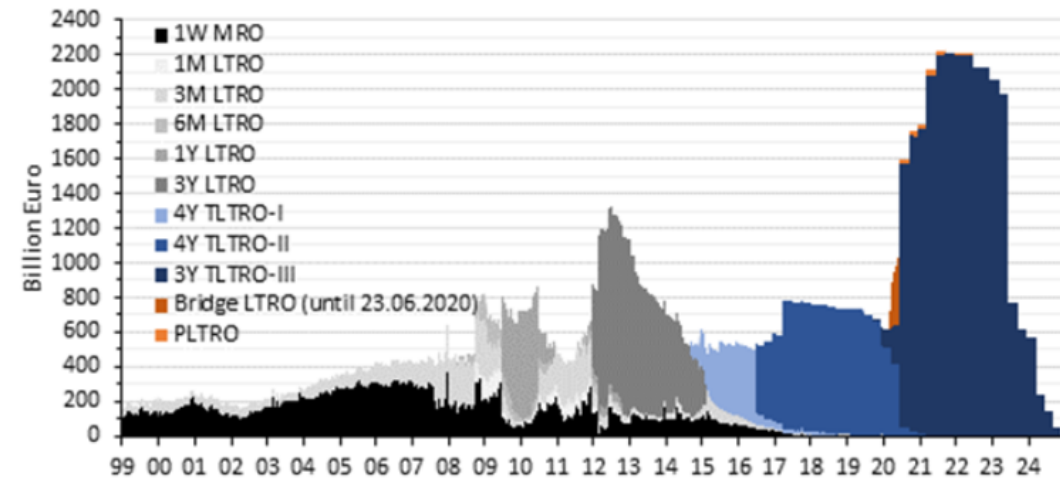
Recap

We use open market operations to steer interest rates, to manage the amount of liquidity in the financial system and to signal our monetary policy stance.

*Our regular open market operations consist of one-week liquidity-providing operations in euro (**main refinancing operations, or MROs**) and three-month liquidity-providing operations in euro (**longer-term refinancing operations, or LTROs**).*

in ECB [Open market operations](https://www.ecb.europa.eu/press/pr/2014/09/140901.htm) (europa.eu)

EVOLUTION OF REFINANCING OPERATIONS IN THE EUROSISTEM



SOURCE: [HTTPS://WWW.WIFA.UNI-LEIPZIG.DE/EN/INSTITUT-FUER-WIRTSCHAFTSPOLITIK/RESEARCH/TLTRO-TRACKER](https://www.wifa.uni-leipzig.de/en/institut-fuer-wirtschaftspolitik/research/tltro-tracker)

Asset Purchase Programme (APP):

Recap

The ECB's APP started as part of a package of non-standard monetary policy measures that also included targeted longer-term refinancing operations, initiated in mid-2014.

The APP consists of the:

CSPP: corporate sector purchase programme

PSPP: public sector purchase programme

ABSPPP: asset-backed securities purchase prog

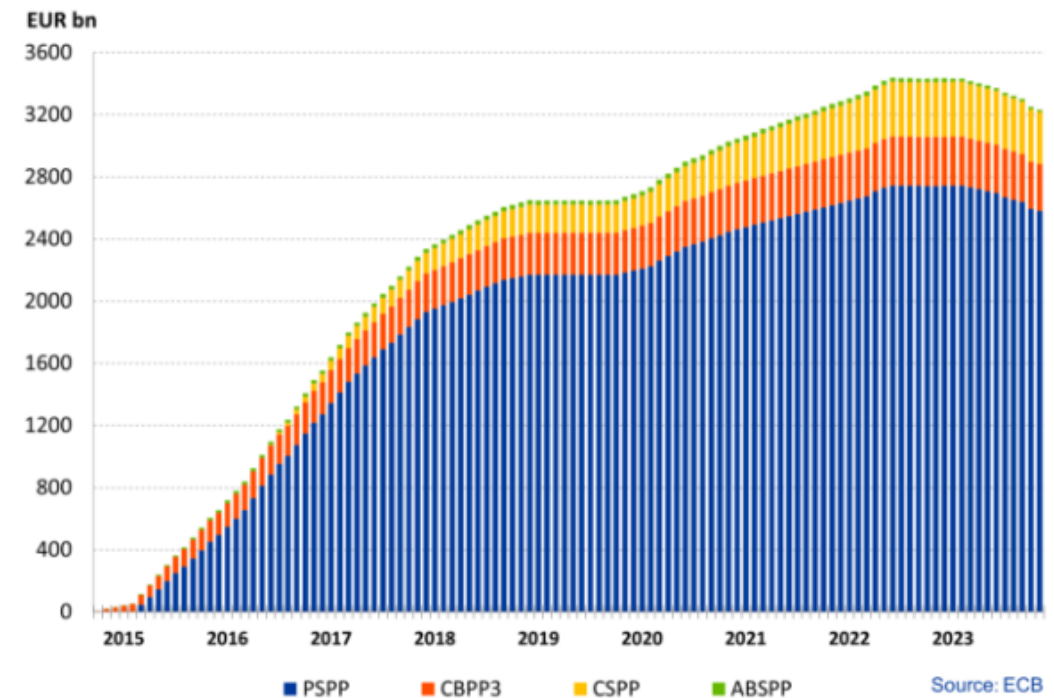
CBPP3: third covered bond purchase prog

In ECB

<https://www.ecb.europa.eu/mopo/implement/app/html/index.en.html>

APP cumulative net purchases, by programme

Stock stood at €3232 billion (end of November 2023).



Pandemic emergency purchase programme (PEPP)

Recap

The ECB's PEPP is a non-standard monetary policy measure initiated in March 2020 to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus (COVID-19) outbreak.

The Governing Council decided to increase the initial €750 billion envelope for the PEPP by €600 billion on 4 June 2020 and by €500 billion on 10 December, for a new total of €1,850 billion. All asset categories eligible under the existing asset purchase programme (APP) are also eligible under the PEPP

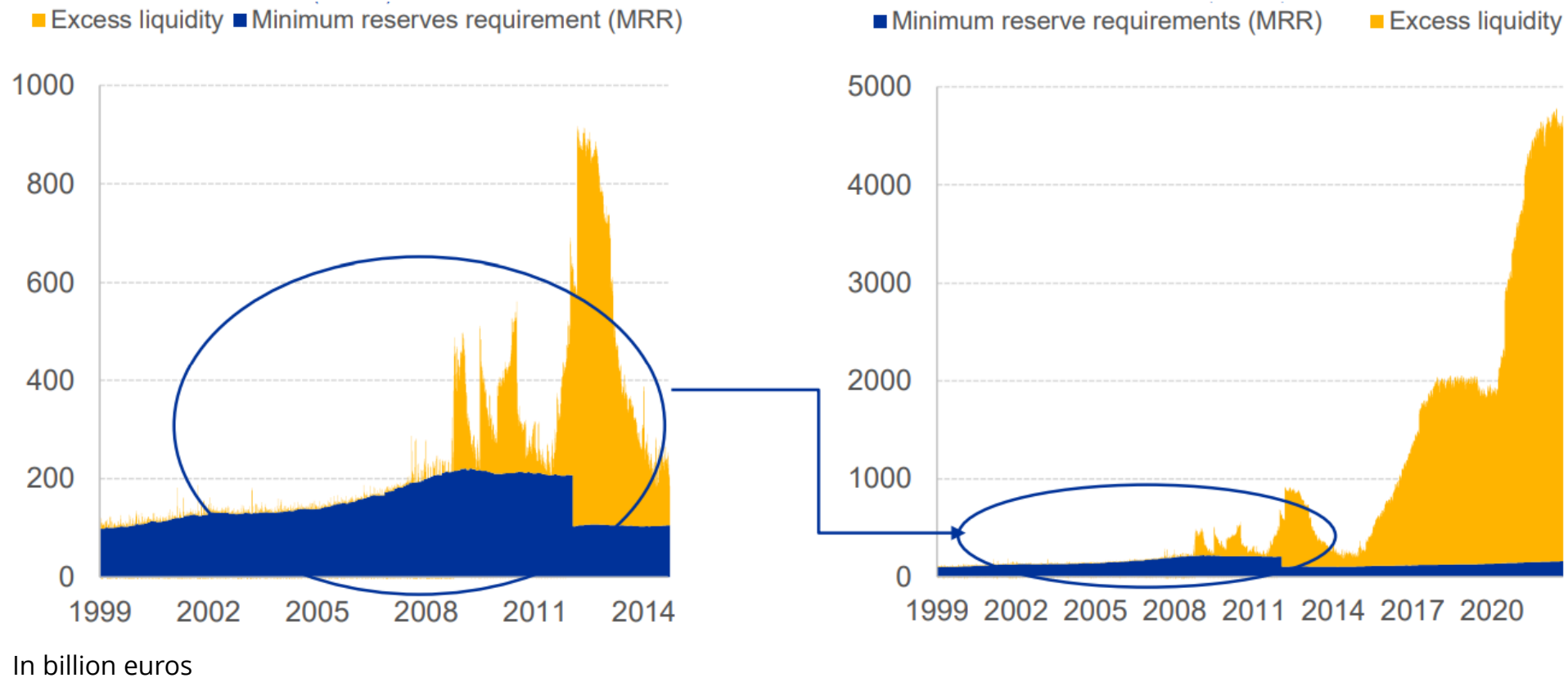
in ECB <https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html>

Eurosystem holdings under the PEPP

Changes in holdings in EUR millions	Asset-backed securities	Covered bonds	Corporate bonds	Commercial paper	Public sector securities	Total
Holdings* as at end-Sep 2023	0	6,040	46,034	0	1,615,766	1,667,839
Net purchases Oct 23 - Nov 23	0	0	-23	0	160	137
Quarter-end amortisation adjustment and redemptions of coupon STRIPS	0	0	0	0	0	0
Holdings* as at end-Nov 2023	0	6,040	46,011	0	1,615,926	1,667,976
*End-of-period book value at amortised cost.						

Minimum reserve requirements and excess liquidity

Recap



Information about minimum reserves requirement available in ECB website:
https://www.ecb.europa.eu/ecb/educational/explainers/tell-me/html/minimum_reserve_req.en.html

An overview of the main topics of the course

A recall on the exam and preparatory class

- **Exam (50%)**
 - 12th December
 - Minimum grade: 9.5
 - Questions will be mostly based on the lectures but...
 - At least one question focusing on the guest speakers' interventions;
 - At least one question focusing on selected case study.
- The exam will cover all the classes (not just the ones lectures after the mid-term test)
- If you have any question, on **December, 9th, 5.00pm @room TBD.**
- I remain available to set-up a video call or clarify any question by email.

A comprehensive characterization of banks and their framework

- The institutional framework at the European Union level
 - Objectives (following the GFC), institutions, International arena...)
 - Banking Union | Single Rule Book | ESAs | ESM
- Banks as financial intermediaries and their basics
 - The role of banks and their different structure (also covered on Nov. 18th)
 - Where banks make money
- Banks at a glance from a regulatory and supervisory perspective

Relevant indicators - > 4 different categories

Euro area banks' position

- Money creation by banks

A Central Bank + Banks financial position

- Areas of intervention of Banco de Portugal
- Banks financial position, income statement and performance

A look inside banks: Capital and Liquidity

- Capital
 - What is capital
 - Accounting, regulatory and others forms of capital RWA
 - How much capital do banks need to hold: Pilar 1 + Pilar 2 + buffer requirements
 - Leverage ratio (limite models risks, comparability)
 - Output floor
- Liquidity
 - Origins and how to close the gap
 - Liquidity management
 - LCR and NFSR

A look inside banks: Risks

- The different risks in the banking sector

- The concept
- Can it be eliminated?
- Risk inducing behaviours
- Risk Appetite framework
- Risk management (3-lines of defence approach)

Credit

Interest rate

Market

Liquidity

Foreign Exchange

Off-balance

Operational

Sovereign

Insolvency

A look inside banks: Credit risk

- Credit underwriting process
- Risk adjusted pricing
- Credit risk
 - Relevant parameters: PD LGD EAD M
 - Mitigation and collateral
 - Expected and unexpected losses
 - Var approach

A look inside banks: Interest Rate risk

- Interest rates at the current juncture
- Interest rate risk sub-componentes
 - Refinancing risk, reinvestment and others
- The repricing gap model
- The duration model
- VaR

A look inside banks: Operational risk

- Definition
- Supervisory requirements: current and forthcoming
- Managing operational risk

A look inside banks: Market risk

- Definition, drivers (general risk and specific risk) and calculation approaches
- Where is market risk (trading book vs banking book) and regulatory requirements
- Market risk components
- The duration gap model
- DEAR and VaR
- Approaches compared

A look inside banks: Measuring and management of risks

- Risk Appetite Framework and risk Management (again)
- Banking Stress testing
- SREP
- ICAAP

Resolution

- The cost of failure
- A bad nash equilibrium
- FROM RECOVERY TO RESOLUTION
- THE RESOLUTION FRAMEWORK: OBJECTIVES, PRINCIPLES AND CONDITIONS
- THE RESOLUTION FRAMEWORK: TOOLS AND POWERS
- THE RESOLUTION FRAMEWORK: THE INSTITUTIONAL MODEL IN THE BU
- THE RESOLUTION FRAMEWORK: THE IMPORTANCE OF PLANNING
- THE RESOLUTION FRAMEWORK: WHY IS THE INTERNAL LOSS-ABSORBING CAPACITY SO IMPORTANT?

Regulation

- Basel accords:
 - Main features
 - Strengthens
 - weakness

Banking Strategy, the future of banking and wrap-up

- Assessment of the the (economic) value of a customer
- Difference between different banking services (e.g. retail/commercial, corporate, private, and investment banking)
- A (very general) idea of the industry's view on banking strategy (last slides, based on a Deloitte study)
- Key Banking Industry Trends for 2022 and beyond
- Some recaps

Thank you for participating in this course.

It was my pleasure to guide you through these materials.

I'm certain they will prove useful.

All the best!