

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.