



Indian  
Institute of  
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# Samachar

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**THEME : STRATEGIES FOR THE ERA OF TURBULENCE & CHANGING CONTOURS OF BANKING**

## Highlights for Day 2 - (Tuesday, 1.9.09)

### Session I Distributive aspects of risks :



**Mr. Munish Varma**, Managing Director, Head of global Markets, India, Deutsche Bank AG (right)

**Shri R. Bhaskaran**, CEO, IIBF (left)

What is risk? It means Exposure to the chance of injury or loss

-Exposure might not always be direct or obvious; Chance low probability events are also possible events. Failure to recognize "tail" probabilities what if the world changed?; Loss essential to understand the potential downside markets/environment/IT have changed

"Distributing risk" is not the same as "reducing risk"; Securitisation "raising funds by selling future cash flows"; Catastrophe bonds 1990 for hurricane, earthquake, etc. ; Credit Default Swaps (insuring against defaults) Common CDS Transactions is between protection buyer and protection seller; Unified regulation needed which can be

taken up at political level

Summing up : 1) Risk taking and hedging has to be fine tuned and measured against the basic parameters of exposure, probability and potential loss 2) Instruments like CDS and securitization are effective means of mobilizing risk. 3) total risk in the system remains the same irrespective of how thinly we can slice and distribute it.

India Story : 1) big banks have not asked the govt. to bail them out 2) the economy is still growing (although less rapidly than earlier estimates)

### Session II : IFRS Covenants of IFRS Does it help in risk management?



**Mr. Tony Malik**, Director, Deloitte Haskins and Sells (right)  
- (for more info visit - [www.iasplus.com](http://www.iasplus.com))

**Shri R. Bhaskaran**, CEO, IIBF (left)

IFRS International Financial Reporting Standards - IASs were issued by the IASC from 1973-2000. IASB replaced the IASC in 2001; Through committees both the IASC and IASB have also issued Interpretations of standards;

Benefits : Ability to raise and attract capital at a low cost. Improve comparability. Escape from preparing accounts under different GAAPs. Increase in investor confidence. Challenges : 1) Right now accounting standards and requirements are governed by various regulators, viz., RBI, SEBI, tax authorities. Global standards do not recognize such override by non-standards 2) IFRS a moving target 3) complexity 4) tight time table 5) management buy-in/regulators acceptance 6) building in-house capabilities

to reduce reliance on outside consultants. Business and Organisation considerations : Implementation stages initial impact assessment to be completed in 3-5 months collateral impact (operations, tax and treasury) impact on key performance indicators (KPI) Impact on capital adequacy Impact on loan covenants treasury management and what impact will IFRS have on treasury management? Distributions and dividend policies Has the effect of IFRS on reserves available for distribution been gauged? Performance related contracts and employees remuneration schemes staff skill sets systems and controls investor relations how will changes due to IFRS be explained to investors and analysts? Accounting considerations consolidations; derecognition; financial guarantees use of fair values IAS39 financial instruments; recognition and measurement mergers and acquisitions IFRS and Audit Committees plays a vital role for implementation of IFRS.

### Session III: Risk Pricing of risks and pricing for risk on the face of volatility and distinction between cost of hedge and costly hedge



**Mr. Sudhir Joshi**, former Treasurer, HDFC Bank (right)

**Shri R. Bhaskaran**, CEO, IIBF (left)

Meaning structured process of quantifying risk involved in the assets of a banking enterprise; Objectives of pricing of risk for banking enterprises - To assess and decide the adequacy of Tier I capital of a banking enterprise relative to scale of its operations and balance sheet size.

Limitations of current practice of pricing of risk: there is no globally uniform scheme of risk weightings for different type of assets/loans. In some of the countries, where regulatory risk weightings are more stringent. Countries where regulatory risk weightings are lenient, there is a chance of asset bubble, which if bursts, can lead to systemic risk for the entire economy; Assets of US banks are classified in four categories: 0%; 2)20%; 3) 50% and 4) 100% ;Claims secured by commercial real estate attracts risk weightage of 100%

### Session IV : CEO speak on coping strategy - How has the financial services meltdown affected the real-world corporate sector? And how is it addressing the challenges therein?



**Mr.N.G.Subramaniam**, President, TCS Financial Solutions (right)

**Shri R.Bhaskaran**, CEO, IIBF (left)

Addressing challenges and opportunities : Create targeted action plans on how to position the organization for recovery; evaluate how sensitive the operations are to a high inflation scenario; take advantage of the opportunities the downturn presents by reinvesting savings seized from vendors and internal cost cutting in customers and talent.

To stay liquid and improve cash flow, CFOs are prioritizing 1) working capital improvements 2) reducing operating expenses and 3) reducing capital expenditures. Working capital improvements require support from senior management and understanding of working capital concepts. Monitor customer and supplier solvency. Monitoring factors, viz., credit ratings; customer/supplier

news and events; fundamental business analysis; customer/supplier funding and liquidity positions; peer feedback, etc.

Summing up : 1) renegotiate supplier agreements to seize more favourable terms; be cash flow sensitive; revisit budget expenditure budget; increase investments in performance management and talent recruiting; increase investment in product development and innovation; increase investment in marketing and advertising to increase market share.

Business strategy to take into account 1) Diversification; 2) Cutting the tail 3) Top 'x' customer/market reliance; grow domestic market; increase trade among emerging markets; continue farming developed countries with 'service' innovations; grow emerging markets with 'product' innovations; have prudent regulatory controls so that the financial sector pursues growth of 'real' assets. Case studies of following groups be looked into : Murugappa & Group and Tata Docomo.