Université PANTHÉON - ASSAS (PARIS II)

Droit - Economie - Sciences Sociales

7041

Assas

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Discipline : *Anglais magistère Banque-Finance 2ème année*
(Structure 1er semestre)

Titulaire(s) du cours : Mme Elizabeth DODARD

Document(s) autorisé(s) : Aucun document n'est autorisé

Durée de l'épreuve : **1h30**

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1. **Explain the following. Write 3 to 6 lines (double spaced) in full sentences (/4)**

a. Futures vs forwards
b. Zero-lower bound

2. **Translation. Translate the following paragraph into English (/6)**

Depuis la victoire de Trump, les espoirs des investisseurs de voir des baisses d'impôts, une hausse des dépenses d'infrastructures et une réglementation allégée pour les banques, ont eu pour effet de doper les indices boursiers. Le Dow Jones a ainsi pris 9,2 % depuis le début de 2016, stimulé également par la perspective d'une hausse probable des taux d'intérêt en décembre. La remontée programmée de l'inflation va peser sur la valeur des obligations, poussant les investisseurs vers les Bourses des pays industrialisés.

3. **Essay: After reading these paragraphs adapted from *The Economist*, October 1st, 2016, comment on the sentences in bold**
(2 to 4 pages double-spaced – about 300 words) (/20)

In a recent book entitled *The Man Who Knew: The Life and Times of Allan Greenspan*, Sebastian Mallaby faults the former chairperson of the FED for inertia on regulation, he is no less critical of the inflation-targeting that Mr Greenspan ultimately adopted.

"The tragedy of Greenspan's tenure is that he did not pursue his fear of finance far enough: he decided that targeting inflation was seductively easy, whereas targeting asset prices was hard; he did not like to confront the climate of opinion, which was willing to grant that central banks had a duty to fight inflation, but not that they should vaporise citizens' savings by forcing down asset prices," Mallaby writes.

Perhaps the biggest lesson of Mr Greenspan's slide from being the "maestro" of the 1990s to the scapegoat of today is that **the forces generating monetary and financial instability are immensely powerful. That is partly because we do not really know how to control them. It is also because we do not really want to control them.**

4. **Read the article, then answer the following questions. (/10)**
Write 3 to 6 lines (double spaced) in full sentences for each answer. Use your own words

a. Why is the Basel Committee dissatisfied with banks' compliance with Basel III rules? (4)

b. How will the new rule affect overall capital requirement? (3)

c. Will the impact be the same in Europe and America? (3)

A showdown looms over bank-capital rules

Adapted from *The Economist*, Nov 26th 2016

THEY lack the magic of "Harry Potter" and provoke even less laughter than "Police Academy", but the sequels keep coming. In Santiago on November 28th and 29th the committee of central bankers and supervisors from nearly 30 countries that draws up global bank-capital standards is due to thrash out revisions to Basel 3, the version agreed on after the financial crisis of 2008. European (and some Asian) bankers and officials fear additional capital requirements are coming; Americans are all for the changes. Stand by for a standoff in Chile.

Spurred by Basel 3, banks have stuffed billions into capital cushions that the crisis showed to be woefully thin. Between mid-2011 and the end of last year, 91 leading lenders bolstered their common equity by €1.4trn ($1.5trn), or 65%, according to the Bank for International Settlements (BIS). The ratio of equity to risk-weighted assets, an important regulatory gauge, climbed from 7.1% to 11.8%. Although Basel 3 need not be fully honoured until 2019, most banks are far above the minimum of 4.5% (additional buffers, some at national level, raise the actual floor much higher).

But the committee has been taking a closer look at banks' calculations of risk-weighted assets. It has concluded that banks' internal models vary too much: in an exercise in 2013, in which it asked 32 lenders to assess the required capital ratio for the same hypothetical credit portfolio, the highest answer was four percentage points above the lowest. Some banks, it believes, are too sanguine about credit risk.

So the committee has suggested restricting the use of banks' in-house models in assessing loans to large companies and other banks, and in specialised lending such as project finance. (Because defaults are rare, the reasoning goes, there are not enough data to model risks well.) Where banks' own models are used, it wants minimum values for important parameters, such as the probability that loans go bad. And it is considering an "output floor"—a lower bound for the risk-weighted sum of their assets—of 60-90% of the figure calculated under a "standardised" method.

Supervisors and ministers have said that the changes should not "significantly" raise "overall capital requirements". But some lenders can expect an increase. The proposed standardised approach, for instance, weights residential mortgages worth 60-80% of the value of the property at 35%: in Denmark or Germany, say, where defaults have been rare, banks' models imply little risk and lower weights. When loans of all sorts are totted up, several internal calculations of risk-weighted assets are likely to be below the output floor. Substituting the floor for the internal figure boosts risk-weighted assets, depressing the capital ratio.

European banks complain of being forced into an American-designed straitjacket. Higher capital requirements, they complain, will crimp lending and growth—although research by the BIS suggests that better-capitalised banks have lower funding costs and lend more, not less. American banks will be little affected by the credit-risk proposals. They sell most mortgages to Fannie Mae and Freddie Mac, two government-owned entities, whereas European lenders keep them on the books; American companies borrow from markets rather than banks. Americans retort that their post-crisis supervision has been stricter than in Europe and that they were quicker to knock themselves into shape.