

How Banks Can Avoid Making The Mistakes of Silicon Valley Bank and Credit Suisse Bank

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Overview

The following few slides give a brief overview of the main points that a bank needs to look into to avoid the mistakes that led to the recent downfall of Silicon Valley Bank (SVB), and Credit Suisse.

The overview is prepared by Dr O.A. Nasr, a Cambridge and Cornell graduate, who had leading positions in Citigroup and Shearman and Sterling. He covered there asset-liability management, derivatives, capital markets, market/counterparty risk management, and securitization. He later provided advice to top banks including ABN Amro, Barclays, Credit Agricole, Deutsche Bank, BofA-Merrill Lynch, KFH, NBK, and SNB. He also lectured at Harvard Business School and Cambridge.

Dr Nasr can give a bank a specially tailored workshop, or lead an Amdeya assessment of how to avoid the mistakes of SVB, and Credit Suisse. "

Silicon Valley Bank: A Classic Risk Management Fiasco

AREAS TO LOOK AT

- SVB's bond portfolios
- SVB's accounting policies and practices
- Relaxation of SVB regulation (2018)
- SVB's deposit liabilities and sensitivities
- Genesis of SVB fiasco
- Key lessons learned
- Potential contagion effects

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AREAS TO LOOK AT

Bond Pricing and Volatility Measures

- Price/yield equation for fixed- and floating-rate bonds
- Duration, modified duration and DV01
- Effect on duration of coupon, tenor and yield
- Convexity and its effect on duration/price volatility

Accounting for Bond Investments by Banks

- Accounting under US GAAP
- Accounting under IFRS
- Impact of MTM changes on net income and regulatory capital
- Criticism of accounting treatment
- Proposed amendments to accounting treatment?

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AREAS TO LOOK AT

Tools for Interest Rate Risk Management: Interest Rate Swaps

- Mechanics and pricing of interest rate swaps (“IRS”)
- IRS duration, DV01 and convexity
- Use of IRS to reduce price volatility of fixed rate bonds (“asset swaps”)
- Hedge accounting and its advantages/difficulties

Duration Hedging

- Traditional gap analysis/gap reports
- Impact of interest rate shocks on net interest income
- Impact of interest rate shocks on economic value of equity (“EVE”)
- Use of IRS to reduce/eliminate EVE sensitivity to interest rate shocks
- Imperfections of duration hedging

The Credit Suisse Case

AREAS TO COVER

Credit Suisse/UBS Merger

- Credit Suisse's successive debacles
- Impact on CS of SVB collapse?
- Structure and terms of UBS/CS merger
- Write-off of CS AT1 Cocos

Hybrid Capital/AT1 Cocos

- Hybrid capital under Basel regulation
- Hybrid capital from perspective of rating agencies: equity credit
- Hybrid capital from perspective of rating agencies: notching practices
- Tier-1 and Tier-2 Cocos and pricing methodologies/difficulties
- Detailed examination of contractual language for write-down trigger
- Write-down of CS Cocos: justified?

Dr. Oussama Nasr

Dr. Nasr is an Amdeya Senior Consultant, with extensive financial and legal experience with top international firms, and outstanding academic background. Dr. Nasr has over 30 years of extensive multi-disciplinary experience in asset-liability management, capital markets, derivatives, alternative investing, market/counterparty risk management, and securitization.

Dr. Nasr graduated from Cambridge University with a BA and MA in Mathematics. He went to Cornell in New York where he earned a Juris Doctor. Dr. Nasr worked with Shearman & Sterling in New York for four years. He then joined Citigroup as Managing Director of securitization and global derivatives. He later became a well-sought after international senior expert for international banks on high level training. They included ABN AMRO, Barclays, Crédit Agricole, Citigroup, Deutsche Bank, Euromoney, Kuwait Finance House, Merrill Lynch, National Bank of Kuwait, Saudi National Bank, Société Générale. While at Citigroup, Dr. Nasr's teams structured billions of US Dollar transactions to global firms. While at Shearman & Sterling, he helped various commercial and investment banks in their domestic and international fundraising activities, including syndicated loans, private placements and securitizations.

Dr. Nasr lectured at Harvard Business School, Cambridge University, and the Olayan Business School at AUB. He wrote several articles on derivatives, structured finance and bank insolvency for Euromoney, Derivatives Week, Latin Finance and others.

For more information on a bank-specific workshop led by Dr. Nasr, or brief bank-specific assessment:

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