

Date 16th January 2012
Topic **The impact of Basel III on corporate performance – the law of unintended consequences in action**
Respondents 303 Corporate treasury professionals

CONTEXT

Basel III is the regulators' response to the excesses of irresponsible investment banking and retail lending - intended to safeguard the real economy. However, many commentators* now argue that Basel III will have a negative impact on the banks' ability to lend to corporates, to fund trade finance and on risk management via OTC derivatives.

EuroFinance's survey of corporate treasury professionals puts meat on the flesh of those commentators' arguments. The real economy will suffer, according to the survey.

KEY FINDINGS

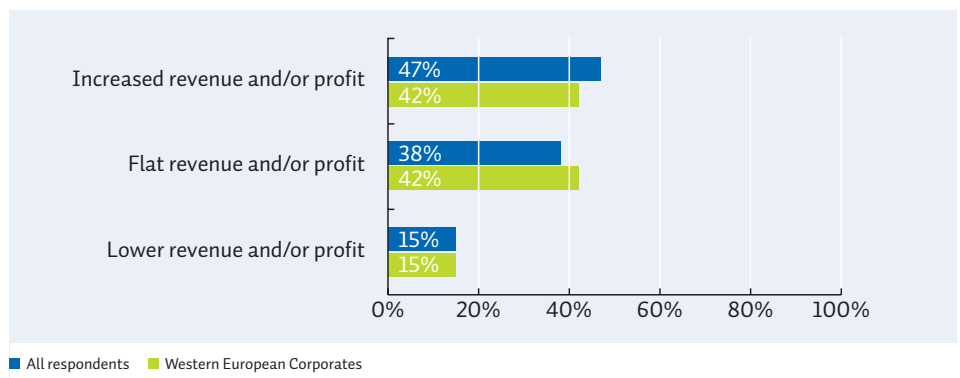
European corporate treasury professionals surveyed by EuroFinance say:

- 57% of corporates in Western Europe expect that the implementation of Basel III regulations will have a negative impact on their company's performance
- 61% of European corporate treasurers, who expressed an opinion, think that banking regulators do not understand the impact of their regulations on corporate and trade finance.

RESULTS IN FULL

QUESTION 1

What are your expectations for the performance of your company in 2012?



Analysis

- 67% of the survey responses came from Western Europe
- Corporate respondents in Western Europe were evenly split between revenue/profits rising (42%) and revenue/profits being flat (42%).

MORE INFORMATION

For more information about this survey or EuroFinance research services, please contact:

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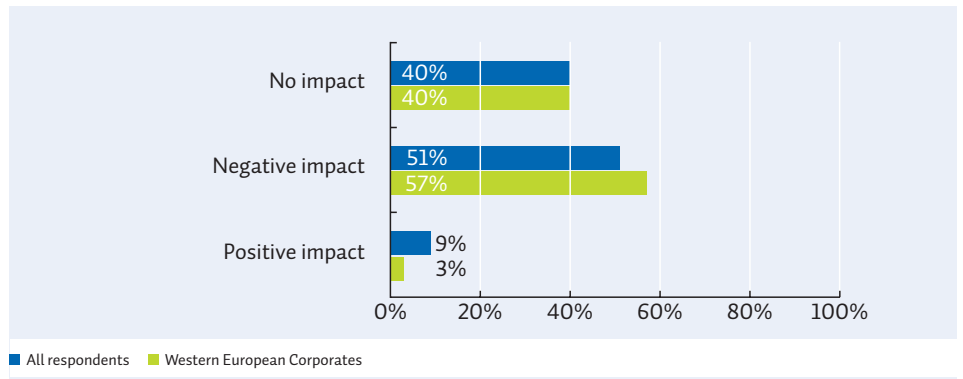
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QUESTION 2

What impact do you expect Basel III to have on your company's performance?



Analysis

- A full 57% of corporates say that Basel III will have a negative impact on their company's performance. Commentators note negative effects on the cost of funding, the cost of using derivatives and the costs of trade finance.
- Sensitivity to the issue is strongest in Europe, possibly because the euro crisis is already causing significant difficulties for European companies' ability to raise funds.

COMMENTS

"Substantial projects with reasonable to good prospects will not materialise due to banks' Tier I constraints."

Corporate treasury professional, Switzerland

"New CVA charges for counterparty risk in OTC derivatives will be charged on to end users, roughly doubling the current risk costs."

Corporate treasury professional, Germany

"The impact will be phased in over time. Next time we need to refinance it will be harder or more costly. Solvency 2 is potentially much worse for us."

Corporate treasury professional, UK

"There will be considerable on-cost to what are risk reducing transactions for corporates."

Corporate treasury professional, UK

"Unfunded obligations and/or trade-backed direct borrowings have a higher recovery rate than is proscribed via the Basel III standards (which have been released to the banks to date.) The impact on corporates is this: lower recovery rates/higher capital requirements for these obligations will force banks to increase pricing."

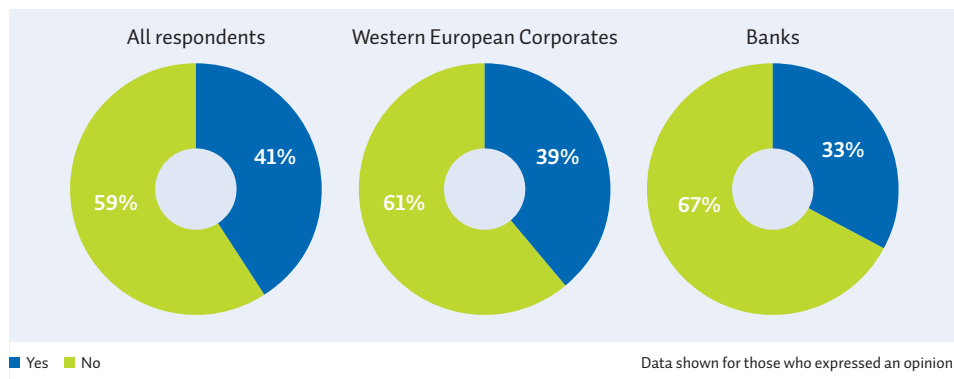
Bank / FI, USA

"My view is that Basel III will increase the cost of funds for mid and small caps, increase inflation and destroy value in Europe."

Bank / FI, Luxembourg

QUESTION 3

Do regulators understand the impact of Basel III on corporate funding and trade finance?



Analysis

- Corporate treasurers in Western Europe appear to endorse the view of many bankers that the Basel III regulators have not paid sufficient attention to (or are unconcerned by) the impact of their regulations on corporate bank clients.

COMMENTS

"...or the political pressure is so strong that they have to obey."

Corporate treasury professional, Germany; Answer: No

"I assume they do understand, but they don't care."

Corporate treasury professional, Germany; Answer: Yes

"Regulators do not care about the impact of new OTC derivatives on corporates."

Corporate treasury professional, Italy; Answer: Yes

"Regulators ignore the effects on the end user - only concerned about the banks."

Bank / FI, UK; Answer: No

"They are not engaging with corporates and in general they focus too much on retail customers in this area (although it is questionable if they are engaging on their behalf on this topic also)."

Consultant / Technology vendor, Ireland; Answer: No

* COMMENTATORS / SUGGESTED FURTHER READING

Impact of Basel III: trade finance may become a casualty

The World Bank
<http://qurl.com/kbbj4>

How Basel III & Solvency II impact corporate borrowing

As reported by Reuters
<http://qurl.com/3w2m4>

EACT highlights European Union's failure to consider real economic impact of financial regulatory proposals

The European Association of Corporate Treasurers (EACT) sent an open letter to the Commissioners of the European Union, expressing grave concern over how, in its development of financial regulatory proposals, Brussels takes account of their impact on employment, growth and stability in the real economy <http://www.eact.eu/news>

SURVEY METHODOLOGY AND DEMOGRAPHICS

An e-mail invitation was sent to selected corporate treasury professionals from the EuroFinance Research database on 10 January 2012 inviting them for their feedback on the expected impact of Basel III on their company's performance. The survey data was collected online and 303 responses were received.

ANALYSIS BY TYPE OF ORGANISATION

Sector	%
Corporate treasury / finance	45%
Consultant / technology vendor	4%
Bank / financial institution	28%
Regulator	0.3%
Other	22%

ANALYSIS BY GLOBAL REGION

Region	%
Asia	8%
Central & Eastern Europe	7%
Latin America	5%
Middle East & Africa	9%
North America	5%
Western Europe	67%

This report has focused on the responses of Western European corporates.

ABOUT 5-CLICK SURVEYS

5 click surveys are used to generate an instant snapshot of the opinion of the corporate treasury profession on key topical issues. The surveys are designed to be fast to complete. Participants are generated through e-mailing selections of the EuroFinance Research database which comprises of 20,000 + corporate treasury professionals from multinational companies, transaction banks and associated service providers.

ABOUT EUROFINANCE

EuroFinance is the leading global provider of conferences, training and research on cash management, treasury and risk. Running more than 50 events worldwide, EuroFinance enables treasurers and CFOs to exchange innovative strategies, best practice and expert opinion.

EuroFinance has a unique insight into the trends and developments in cash management and treasury, and an unrivalled global viewpoint. EuroFinance is an Economist Group business.

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