

Absolute Banking English

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English for
international banking

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Financial prudence

This unit covers:

- banking risk and the security of deposits
- banking supervision measures
- bank stress tests

Lead-in

Discuss these questions with a partner.

- 1 How can the banking authorities of a country ensure that depositors' funds are safe?
- 2 How can the amount of risk banks take when investing their depositors' money be limited or controlled?
- 3 How can banks be made more accountable for the risks they take?



Listening file

The Bank for International Settlements

1 a You are going to listen to an introductory talk about the Bank for International Settlements (BIS). Before you listen, decide whether each of these statements about the BIS is true (T) or false (F).

- 1 The BIS was set up in the wake of the 2008 financial crisis.
- 2 The BIS is the bank of all central banks.
- 3 The main function of the BIS is to monitor international payments.
- 4 Many central banks keep funds in the BIS.
- 5 The BIS has its headquarters in Basel, Switzerland.
- 6 The BIS is part of the IMF.

b **2.5** Listen and check your answers.

c **2.5** Listen again and answer these questions.

- 1 What information does the BIS provide to central banks?
- 2 What kind of face-to-face meetings does the BIS organize?
- 3 What was the main focus of the BIS in the '70s and '80s?
- 4 What issue became more important after the Asian crisis in 1997?
- 5 What is the prime concern of the BIS nowadays?

2 Complete this table and discuss the meaning of any unknown words. There may be several possible answers in each case.

verb	noun	synonym (of verb)	antonym (of verb)
compile	1 _____	2 _____	3 _____
co-operate	4 _____	5 _____	6 _____
7 _____	dissemination	8 _____	9 _____
establish	10 _____	found	break down
11 _____	implementation	12 _____	13 _____
integrate	14 _____	15 _____	16 _____
maintain	17 _____	18 _____	19 _____
safeguard	20 _____	protect	jeopardize

3  2.5 Listen again and complete this table.

area	actions	dates / time periods
the Bretton Woods system	implementing and defending	
cross-border capital flows		
Basel Capital Accord		
Basel II		
financial stability		
co-operation between central banks		

Dictogloss 4  2.6 Listen to the second half of the presentation on the role of the BIS and complete this dictogloss. See page 88 for guidance on completing dictoglosses.

_____ of
 _____. Over _____ years, _____
 _____ support _____
 _____ during _____. _____ 1931–33
 _____, _____ Bank _____ support _____ for

 _____ 1960s, _____ BIS supported _____
 _____,
 _____, _____ for _____.
 _____ 1990s, _____
 _____ of IMF _____ – for _____
 _____ for _____.

Bank stress tests 5  2.7 Listen to a breakdown of the results of the first round of bank stress tests and complete this summary of the data with up to three words in each gap. Use the words you hear or similar words.

In 2009, banking stress tests were (1) _____ by the Committee of European Banking Supervisors in (2) _____ countries, to be conducted on (3) _____ banks. In the (4) _____ round of the tests, (5) _____ in 2011, (6) _____ banks (7) _____ the test – (8) _____ banks in (9) _____, two in Greece and one in (10) _____. In Spain, (11) _____ per cent of all banks participated in the test and 20 (12) _____; however, in other EU countries, only around (13) _____ per cent were tested.

The stress test is still a (14) _____ topic, and some countries – Spain and (15) _____ in particular – have (16) _____ it. The main (17) _____ of the tests is that they (18) _____ dynamic provisions. One (19) _____ result is that although one (20) _____ bank failed the test, its data was (21) _____ in the official list. In 2013, the test (22) _____ banks to (23) _____ their (24) _____ up to 9 per cent of their (25) _____.



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Vocabulary file

Bank protection Match these terms (1–14) with their definitions (a–n) below.

- | | |
|--|---------------------------------|
| 1 bank stress test | 8 contagion |
| 2 systemic threat | 9 Dodd–Frank |
| 3 dynamic provisions | 10 collateral |
| 4 Supervisory Capital Assessment Program | 11 disclosure |
| 5 European Banking Authority (EBA) | 12 transparency |
| 6 Basel III | 13 Capital Adequacy Ratio (CAR) |
| 7 contingency measures | 14 risk-weighted assets |
-
- a the spread of a problem from one bank to others in the financial sector
b the degree of clarity of a bank's activities as they are reported to the public
c the official name for bank stress tests
d the banking authority that monitors central banks
e a test designed to check whether banks have adequate capitalization to withstand a series of serious financial shocks
f the legal obligation of banks to release their key data
g assets that back the debts of a bank or company
h the law implemented by Barack Obama in 2009 to protect consumers, comprising a major overhaul of financial services
i assets that carry a high degree of risk
j the ratio of capital a bank holds to the amount of risky assets in its portfolio
k the adjustment of bank provisions so that they will be increased during booms to protect banks in case of a downturn
l the danger that the entire financial system may collapse
m strategic plans to cover losses if an emergency arises, i.e. reserve funds
n a global regulatory standard on capital adequacy, stress testing and market liquidity risk agreed upon by the members of the BCBS

Improving your vocabulary

1 Read as much as possible

Read every day and from a variety of sources: books, newspapers and magazines. Also, look at news, press releases and speeches on bank websites, such as the Bank of England, the FED or the BIS.

2 Keep a dictionary and thesaurus

Whenever you come across a new word and you cannot guess its meaning, refer to a thesaurus and find similar words and phrases that you may know. Or look it up in a dictionary; also look up antonyms.

3 Predict the meaning of new words

When you read, try to predict the meaning of unknown words before checking them in a dictionary. Look carefully at the words that come before and after the word(s) you don't understand to help you. Later, check the meaning in a dictionary.

4 Keep a journal

When you discover a new word which you think will be useful, write it in a notebook or journal so that you can study it later and slowly incorporate it into your vocabulary.

5 Learn a word a day

Register on websites for 'word of the day' (there are many such websites) or make your own lists under various categories.

6 Play word games

Word games – such as crossword puzzles, anagrams and jumbled words – will challenge you and help you discover new words. They are a useful tool to help you practise and expand your vocabulary.

7 Improve your context skills

Pay close attention to how words are used. When you check a word in the dictionary, also look at collocations. Then do a search for the word to find several examples of how that word is used in context.

8 Use mnemonics

Use memory techniques to help you remember complex words.

9 Practise

Practise any new words and expressions you learn as much as possible to avoid forgetting them.

10 Engage in conversations

When you talk to colleagues or business counterparts, try to include new words in your conversation.



Reading file

Stress tests 1 Circle the odd one out in each of these groups of words and explain why.

- 1 scrutiny oversight supervision restriction
- 2 stability robustness capacity soundness
- 3 failure collapse downgrade downfall
- 4 assumption forecast prediction projection
- 5 capability possibility potential provision
- 6 buffer cushion mechanism safeguard

Stress testing

A form of testing used to determine the stability of a given system or entity. It involves testing beyond normal operational capacity, often to breaking point, in order to observe the results. The purpose of the test is to determine if banks' capital buffers are sufficient to withstand any unexpected turmoil in the financial market.

2 Read Article A on page 58 and decide whether each of these sentences is true (T) or false (F).

- 1 Monitoring the banks' ability to cover their payment needs is another method of assessing the fundamental financial strength of their system.
- 2 The amount of money banks maintain in payment systems is scrutinized by central banks.
- 3 If banks perform reciprocal transfers at the same time, there is a risk to the liquidity levels of both banks involved.
- 4 Stress tests can only be effective if the test situations are realistic.
- 5 Most designers are highly capable of creating situations that are both imaginative and reflect stress situations which are likely to arise in the actual financial world.
- 6 After the first round of stress tests, the test situations had to be modified to reflect the seriousness of the potential negative effects that could be triggered by a crisis.

Dodd-Frank requirements

3 Read Article B on page 58 to find who made each of these comments about stress testing in the US.

- 1 Banks are only required to publish their most serious economic results.
- 2 The one-year extension will assist some of the banks.
- 3 It will not be easy for banks to learn anything from the test process.
- 4 The Fed is not explaining how it analyzes the stress-test figures.
- 5 Stress testing is an important way of ensuring financial institutions hold sufficient capital to survive a crisis.
- 6 Successful stress testing of a banks does not mean that investors don't need to worry about their investments.

4 Look at the words and expressions in *italics* in these sentences from the articles. What do they mean?

- 1 The failure of one participant to send payments can have negative *contagion effects* on other participants' liquidity positions ... (Article A, lines 20–23)
- 2 Stress tests conducted on payment systems help to evaluate [...] the *contingency measures* of the studied payment systems. (Article A, lines 33–38)
- 3 The successive financial stress tests conducted by the European Banking Authority and the Committee of European Banking Supervisors in 2009, 2010 and 2011 *illustrate this dynamic*. (Article A, lines 51–54)
- 4 Those reviewing and using the results of stress tests *must cast a critical eye on* the scenarios used in the stress test. (Article A, lines 61–63)
- 5 ... the Fed isn't *shedding enough light* on how it *crunches the numbers* in the regulator-run test. (Article B, lines 13–15)
- 6 'Stress testing is a key tool to ensure that financial companies have enough capital to *weather* a severe economic downturn ...' (Article B, lines 28–30)

Stress tests in payment and settlement systems

Another form of financial stress testing is the stress testing of financial infrastructure. As part of central banks' market infrastructure oversight functions, stress tests have been applied to payment and securities settlement systems. Since, ultimately, the banks need to meet their obligations in central bank money held in payment systems that are commonly operated or closely supervised by central banks (e.g. CHAPS, FedWire, Target2), it is important to monitor the liquidity positions of banks participating in these systems.

The amount of liquidity held by banks on their accounts can be a lot less than the total value of transferred payments during a day. The total amount of liquidity needed by banks to settle a given set of payments is dependent on the balancedness of reciprocity of payments, the timing of payments and the netting procedures used. The inability of some participants to send payments can cause severe falls in settlement ratios of payments. The failure of one participant to send payments can have negative contagion effects on other participants' liquidity positions and their potential to send payments.

By using stress tests, it is possible to evaluate the short-term effects of events such as bank failures or technical communication breakdowns that lead to the inability of chosen participants to send payments. These effects can be viewed as direct effects on the participant, but also as systemic contagion effects. How hard the other participants will be hit by a chosen failure scenario will be dependent on the available collateral and initial liquidity of participants,

and their potential to bring in more liquidity. Stress tests conducted on payment systems help to evaluate the short-term adequacy and sufficiency of the prevailing liquidity levels and buffers of banks, and the contingency measures of the studied payment systems.

A financial stress test is only as good as the scenarios on which it is based. Those designing stress tests must literally imagine possible futures that the financial system might face. As an exercise of the imagination, the stress test is limited by the imaginative capacities of those designing the stress-test scenarios. Sometimes, the stress test's designers fail to imagine plausible future scenarios, possibly because of professional peer pressure or groupthink within a profession or trade (witness the failure of the great majority of financial 'experts' to envisage the crash of 2008) or because some things are just too horrible to imagine. The successive financial stress tests conducted by the European Banking Authority and the Committee of European Banking Supervisors in 2009, 2010 and 2011 illustrate this dynamic. The 2009 and 2010 stress tests assumed even in their adverse scenarios a relatively benign macro-economic environment of -0.6% economic growth in the euro area; by 2011, it was clear that such assumptions were no longer just plausible, they were almost certain to happen; the adverse scenario had to be adjusted to a -4.0% growth scenario. Those reviewing and using the results of stress tests must cast a critical eye on the scenarios used in the stress test.

adapted from www.forbes.com

Worst results only

by Victoria McGrane

Regulators in the US have said that companies would only have to publish results of the most severe economic scenarios. Bank officials had worried that investors would interpret the results from the less-severe scenarios as earnings projections. The Fed, which must publish results of its exams, said it, too, would release only the worst-case results, though it plans to revisit the idea of providing additional disclosures in the future.

Wayne Abernathy, a top official with the American Bankers Association, said the year-long extension for many banks is helpful, but 'the black-box nature of the exercise makes it difficult for any bank to learn from the process'. Banks have complained that the Fed isn't shedding enough light on how it crunches the numbers in the regulator-run test. The Fed has tried to educate bankers, but also doesn't want to release its full methodology, in part because it could let banks game the tests.

The Dodd-Frank requirements grew out of the 2009 stress test the Fed conducted during the financial crisis, which helped restore investor confidence that the

country's biggest banks could survive continued turmoil. Regulators forced the ten banks that failed the tests to fatten their financial cushions against potential losses by \$74.6 billion collectively. Since then, the Fed has made the test results a factor in its decision each year on whether to let big banks return cash to shareholders.

'Stress testing is a key tool to ensure that financial companies have enough capital to weather a severe economic downturn without posing a risk to their communities, other financial institutions, or the general economy,' said Fed governor Daniel Tarullo, the central bank's point man on supervision.

Another top regulator warned investors not to rely too heavily on stress tests.

'I hope that we don't send the signal that because a firm passes a stress test that investors ... don't need to worry,' said Federal Deposit Insurance Corp. Director Jeremiah Norton.

Stress testing under DFA stress-test rules began in 2012, and banks were required to submit the results by the following year under three economic scenarios.

adapted from <http://online.wsj.com>



Communicator file

Meetings and presentations

- 1 a  2.8-2.12 Listen to five extracts from presentations and talks. For each one, note the topic and decide if it is formal or informal.
- b  2.8-2.12 Listen again, looking at the audio transcripts on page 99, and highlight the formal or informal language.

- 2  2.13 Listen to a presentation about stress tests and note the expressions used to ...

- 1 ... show the audience this is common knowledge.
- 2 ... repeat something said before.
- 3 ... request clarification of something.
- 4 ... confirm that something is correct.
- 5 ... conclude.
- 6 ... check if something has been understood.
- 7 ... show lack of understanding of a particular point.
- 8 ... request examples.
- 9 ... ask about a hypothetical situation.

There may be more than one possible answer for each one.

- Discussion** 3 Work with a partner. Look at this list of situations that might arise at an international banking forum and take it in turns to explain and discuss the topics.



Perth Banking Forum

- A colleague asks you to explain what bank stress tests are.
- In the coffee break, a fellow banker asks you what you know about Basel III.
- On the panel of the forum, you are asked to give a brief introduction on the topic of capital adequacy.
- Another banker asks you your views of the future of banking in the aftermath of the global crisis of 2008.
- Someone asks you to explain the role of the EBA.
- Explain the main functions of the BIS to a group of journalists.
- At the end of the forum, you are asked to give a short presentation on how banks can improve their reputation after the mistakes that led to the banking crisis.
- On the flight home, someone asks you which part of the conference you found the most interesting.