MACROPRUDENTIAL POLICY: GOALS, CONFLICTS & OUTCOMES

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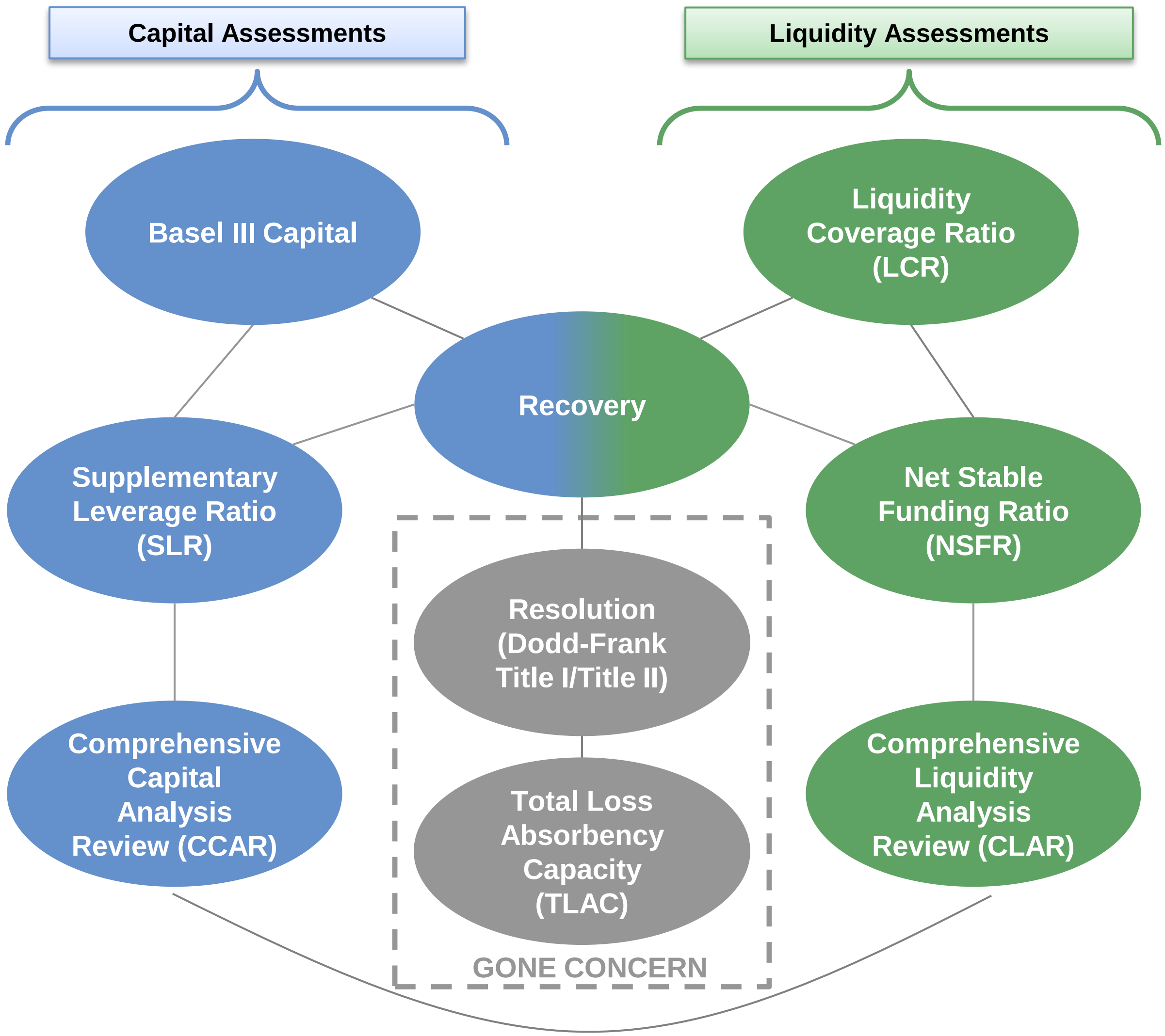
JPMorgan Chase & Co.

Prudential regulation since the crisis has improved safety and soundness



Regulatory policy landscape

Examples[1]

Complete

By a variety of measures, approximately 60% through the post-crisis rulemaking process

- LCR (Basel & US)
- SLR (Basel & US)
- US GSIB Surcharge
- Basel NSFR
- Basel Securitization Capital
- Basel TLAC
- Volcker
- SEC MMF

In process

We still have a long way to go; there are significant proposals underway

- US TLAC
- Basel Fundamental Review of the Trading Book (FRTB)
- Basel capital floors
- High quality securitizations (Basel/IOSCO, EU)
- Basel Standardized Approach (SA) to credit risk
- MiFID II / MiFIR
- UK Fair and effective markets review (FEMR)
- EU Capital Markets Union and Banking Union
- US Title VII (unfinished)
- US DOL fiduciary

Coming

Looking forward, there are significant proposals anticipated

Expected YE2015

- US NSFR
- US FRTB
- SEC broker-dealer leverage and liquidity requirements
- US Securitization
- EC Bank Structure
- CCP resolution and recovery
- EU MMFR
- US compensation

- US Basel CVA
- US SA to operational risk
- US SA to credit risk

Possible

Significant possible rule-making remains

- Incorporation of GSIB in CCAR
- Culture and conduct (US and FSB initiatives)
- US FEMR
- Non-bank systemic risk designations/regulations (asset managers, insurance companies)

New rulemakings and regulatory determinations will likely further impact bank activities and market liquidity.

[1] List is not comprehensive; Note: Timeline not representative of actual scale

Key observations and concerns in current regulatory environment

Observations and concerns	Impact / examples
Market liquidity shifts / reductions	■ October 15 U.S. Treasury rally; decline in market depth ■ Decline in money market products for investors ■ Lift-off could further exacerbate market liquidity dynamics
Safety and soundness vs. growth tradeoff	■ US has higher requirements than Basel ■ Europe taking pause and examining regulatory coherence
Shift of risks to non-banks	■ CCPs ■ Market-making and lending by non-banks (e.g. hedge funds, technology companies) ■ Regulator information hubs
Deviation from risk-based analysis	■ US G-SIB Surcharge, Basel standardized approach, TLAC, Leverage Ratio, breakup rhetoric from policymakers ■ Minimal empirical analysis provided in support of quantum of requirements
Market fragmentation and uneven playing field	■ Swap margin rules ■ Stress testing differences between EU/US ■ Securitization rules
Perceptions about banks	■ Compensation rules ■ UK Fair and Effective Markets Review ■ Culture and conduct initiatives

Policymakers have not defined a safety and soundness risk appetite or an endgame

Facing new constraints, large global banks are exiting or shrinking wholesale businesses

Name	Exits	Stated Rationale
Bank of America	■ Announced the sale of its $87B money-market fund business to BlackRock	■ Part of its business simplification strategy in reaction to the post-crisis regulatory environment
Morgan Stanley	■ 49% reduction in fixed income risk-weighted assets since 3Q2011 ■ Exiting physical commodities business and scaling back other commodities activities	■ Strategic cuts due to regulatory pressures and changing market dynamics
Bank of New York Mellon	■ Shutting down derivatives sales and trading business	■ To streamline operations and remain competitive in a new regulatory landscape, specifically related to new capital and liquidity requirements
BNP Paribas	■ In 2011, made plans to cut corporate- and investment-banking balance sheet by $82 billion, mostly in capital-markets activities. ■ Cut assets by curbing lending and through sales and other business disposals	■ Efforts to increase CET1 capital ratio under Basel III rules
Credit Suisse	■ Announced decision to scale down prime brokerage unit ■ Announced plans to reduce leverage exposure from trading operations by $74B	■ Improve leverage ratios and boost profitability
Citigroup	■ Selling margin foreign exchange business (including CitiFX Pro and Tradestream platforms)	■ Strategic sale to streamline its operations
RBS	■ Exiting MBS, commercial real estate, commercial mortgage-bond sales and trading , and significantly reducing other investment banking activities	■ To stay below $50 billion asset trigger for heightened FRB capital requirements and other restrictions. Other foreign banks expected to restrain growth that would take them over the limit.
UBS	■ Exiting automated U.S. options market-making activities	■ New regulatory requirements and fragmented exchange structure have made the business too costly
Deutsche Bank	■ Exiting single-name CDS trading ■ Shrinking workforce by 26k; Exiting 10 countries; 3.8B cost reduction	■ New banking regulations have made businesses costlier, prompting a strategic review of businesses and clients
Goldman Sachs	■ Sold its aluminum business	■ Regulatory scrutiny
	■ Reduced asset size by 24% from 4Q07 to 4Q14	■ Post-crisis regulatory pressures to shrink
	■ Reduced its repo activity by about $42Bn	■ New capital requirements
Barclays	■ Exited global commodities activities	■ In line with “objective to actively evaluate and manage our businesses, ensuring they meet strict economic and strategic criteria within the new regulatory environment”
	■ Reduced repo lending by ~$25Bn	■ New capital requirements
HSBC	■ Planning significant cuts to its fixed-income operations (e.g. interest rate trading)	■ Strategic cuts in response to regulatory and supervisory pressure in the US and UK
JPMorgan	■ Evaluating future of OTC clearing business	■ Current market economics are incompatible with capital rules in their current form
	■ Reduced non-op deposits by $150bn in 2015	■ Product is non-core to its customers with outsized operational risk and capital charges