MACROPRUDENTIAL POLICY: GOALS, CONFLICTS & OUTCOMES

November 12, 2015
Prudential regulation since the crisis has improved safety and soundness
Regulatory policy landscape

Examples¹

**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

**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

**Looking forward, there are significant proposals anticipated**
- 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

**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

<table>
<thead>
<tr>
<th>Observations and concerns</th>
<th>Impact / examples</th>
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| 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

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