Estimating the Regulatory Costs for U.S. GSIBs

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July 31, 2014

Executive Summary

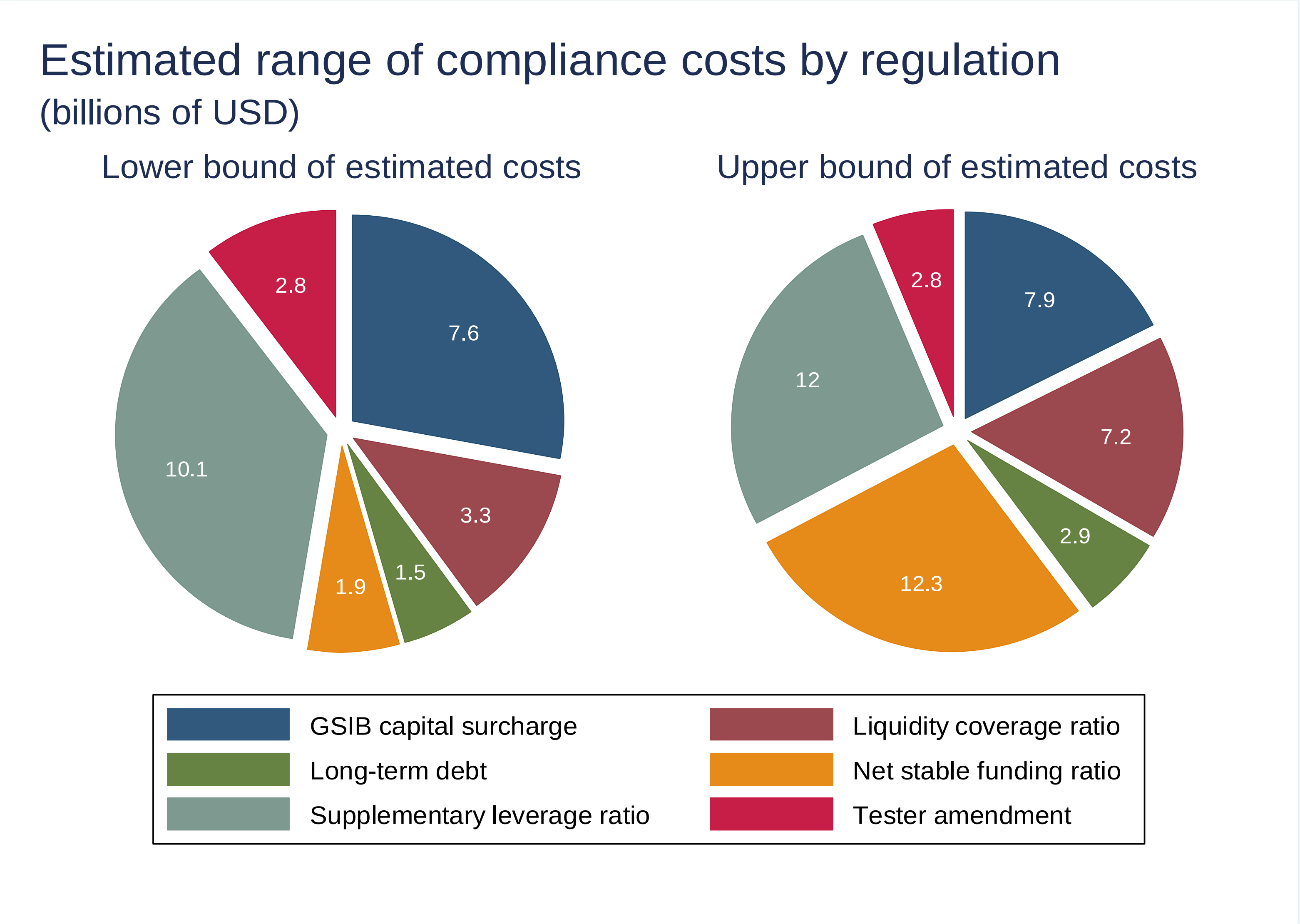
Context

- "Our goal has been to establish regulations … that aim to offset any remaining too-big-to-fail subsidies these [GSIBs] firms may enjoy." Gov. Tarullo, Feb. 6, 2014.
- This study includes US-based GSIBs with more than $500B in assets (JPMorgan Chase, Bank of America, Citi, Wells Fargo, Goldman Sachs, and Morgan Stanley).
- We analyze the annual cost of compliance with: (1) GSIB capital surcharge, (2) enhanced supplemental leverage ratio, (3) liquidity coverage ratio, (4) net stable funding ratio, (5) possible future rule on long-term debt, and (6) Tester amendment.
- We exclude offsets that are hard to quantify, e.g., CCAR.
  - thus underestimating the overall costs of compliance.

Key Findings

- The total impact of the analyzed policies is between **$27B and $45B** in annual costs.
- We report a range and not a single estimate, reflecting:
  - uncertainty in the final form of regulation and
  - methodological assumptions.

Summary of Results (1/3)



Summary of Results (2/3)

	Description of regulation	Estimation methodology	Lower bound	Upper bound
1 **GSIB capital surcharge**	▪ GSIBs must hold an additional 100-250 bps of CET1 as a percentage of RWA above Basel III minimum ratios.	Additional common equity x Equity premium over cost of debt funding - Reduction in cost of equity due to deleveraging	[$114B x (11.1%-3.0%) = $9.2B] - [$763B x 0.21% = $1.6B] = $7.6B	[$114B x (11.1%-3.0%) = $9.2B] - [$763B x 0.17% = $1.3B] = $7.9B

Note: Additional capital required above minimum requirements to meet G-SIB surcharge is based on 1Q 2014 Basel III RWAs.

	Description of regulation	Estimation methodology	Lower bound	Upper bound
2 **Enhanced supplementary leverage ratio**	▪ US-based GSIBs must hold a supplementary leverage ratio of 200-300 bps above the minimum Basel III leverage ratio.	Additional common equity x Equity premium over cost of debt funding - Reduction in cost of equity due to deleveraging	[$176B x (10.89%- 3.0%) = $13.9B] - [$938B x 0.40% = $3.8B] = $10.1B	[$176B x (10.93%-3.0%) = $14.0B] - [$938B x 0.21% = $2.0B] = $12.0B

Note: Additional equity required to meet SLR, estimated 09/2013 TCH study.

	Description of regulation	Estimation methodology	Lower bound	Upper bound
3 **Liquidity coverage ratio**	▪ All US advanced-approach banking organizations must hold an LCR equal to 100% of 30-day net cash outflows in high quality liquid assets (HQLA).	Additional HQLA x GSIB share of added HQLA x Negative carry on HQLA plus opportunity cost of HQLA	$660B x 44% x (48 bps + 65 bps) = $3.3B	$1,440B x 44% x (48 bps + 65 bps) = $7.2B

Note: Liquidity shortfall as of 4Q 2010, taken from 12/2012 TCH study. 44% represent the GSIB share of U.S. deposits. 48 bps represents average negative carry on HQLA. 65 bps represents opportunity cost of holding liquid assets, estimates as option-adjusted spread of AA corporate bonds over Treasuries, as of July 2014.

Summary of Results (3/3)

	Description of regulation	Estimation methodology	Lower bound	Upper bound
4 Net stable funding ratio	▪ Each bank required to maintain available stable funding (ASF) that exceeds its required stable funding (RSF). *Note: ASF shortfall as of 4Q 2010 from 08/2013 TCH NSFR study.*	Shortfall in available stable funding x GSIB share of the shortfall - Capital raised from other rules replacing 10yr wholesale debt x (Cost of long-term funding – cost of short-term funding)	($290B x 54% - $28.9B) x 147 bps = $1.9B	($1,600B x 54% - $28.9B) x 147 bps = $12.3B
5 Possible future rule on long-term debt	▪ GSIBs required to hold additional loss absorbency at the BHC level.	Additional loss absorbency required (in $ billions) x Additional funding cost per dollar of loss absorbency	$104B x (1.85% - 0.38%) = $1.5B	$195B x (1.85% - 0.38%) = $2.9B
6 Tester amendment to Dodd Frank	▪ FDIC revised assessment formula. Introduction of scorecards (CAMEL ratings and the ratio of higher risk assets to Tier 1 capital).	Increase in FDIC assessment of member banks x GSIB share of member banks	$3B x 93% = $2.8B	$3B x 93% = $2.8B

Source: Federal Register/ Vol. 77, No. 211, October 2012.