



OPINION-LEADER FORUM

ANALYTICAL LANDSCAPE

Potential Legislation to Prevent “Too Big to Fail”

Key Provisions, Goals and Possible Consequences

Issue	Goal	Possible Consequence
10% Minimum Capital for Large Banks, 15% Minimum Capital for Largest Banks Additional Requirements for Non-Bank Affiliates (Other Than Insurers) “Supplemental” Standards Possible for BHCs +\$20 Billion	Major Increase in BHC, Financial-System Resilience High Capital Cost Resulting in Organic Break-Up Increased Competition, More Community Banks	<ul style="list-style-type: none"> • Increased Shareholder Value as Big BHCs Restructure • Significant Decrease in Credit Availability • Weak Recovery, Slow Economic Growth • Incentive for Risk Arbitrage • Pro-Cyclicality • Incentive for “Shadow Banking”

Issue	Goal	Possible Consequence
Reliance Only on Equity Capital	Capital Robust Enough to Absorb Risk Transparency	<ul style="list-style-type: none"> • Disincentive to Holding Sufficient Loan Loss Reserves • Higher Cost of Credit • Competitive Disadvantage



Issue	Goal	Possible Consequence
Coverage of Off-Balance Sheet Assets	End of Incentives for Structuring, Complexity Capture of All Risk Increased Reliance on Non-Bank Insurers, Guarantors	<ul style="list-style-type: none">• Elimination of Guarantees, Risk Mitigation• Diminished Credit Availability• Diminished Prudent Securitization, More Structuring• Incentive for “Shadow Banking”• Coverage of Activities w/o Direct Risk

Issue	Goal	Possible Consequence
Limited Recognition of Netting	Reduced Complexity Real Measure of Assets at Risk	<ul style="list-style-type: none">• Diminished Incentive for Risk Mitigation, Management• Conflict w/New Margin, Collateral Requirements

Issue	Goal	Possible Consequence
Ban on U.S. Implementation of Basel III	Prevent Reliance on Risk-Based Capital Prevent Application to Smaller Banks	<ul style="list-style-type: none">• Collapse of Global Framework• Protectionism, Competitive Barriers• Adverse Impact on New Liquidity Standards



Issue	Goal	Possible Consequence
Barrier to Covered Transactions for Larger BHCs/All FHCs	Prevent Transfer of Benefits Meant for Banks to Non-Bank Operations	<ul style="list-style-type: none">• Increase in Non-Traditional Activity within Banks Outside of Affiliates/Subs• Heightened Financial Market Liquidity Risk• Prevents use of Ring-Fencing/Subsidiarization to Limit Risk (e.g., UK, Liikanen)