
A Comparative Assessment: The U.S. Bank Holding Company Structure, the Volcker Rule, UK Banking Reform (Vickers), and the Liikanen Proposal

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Overview

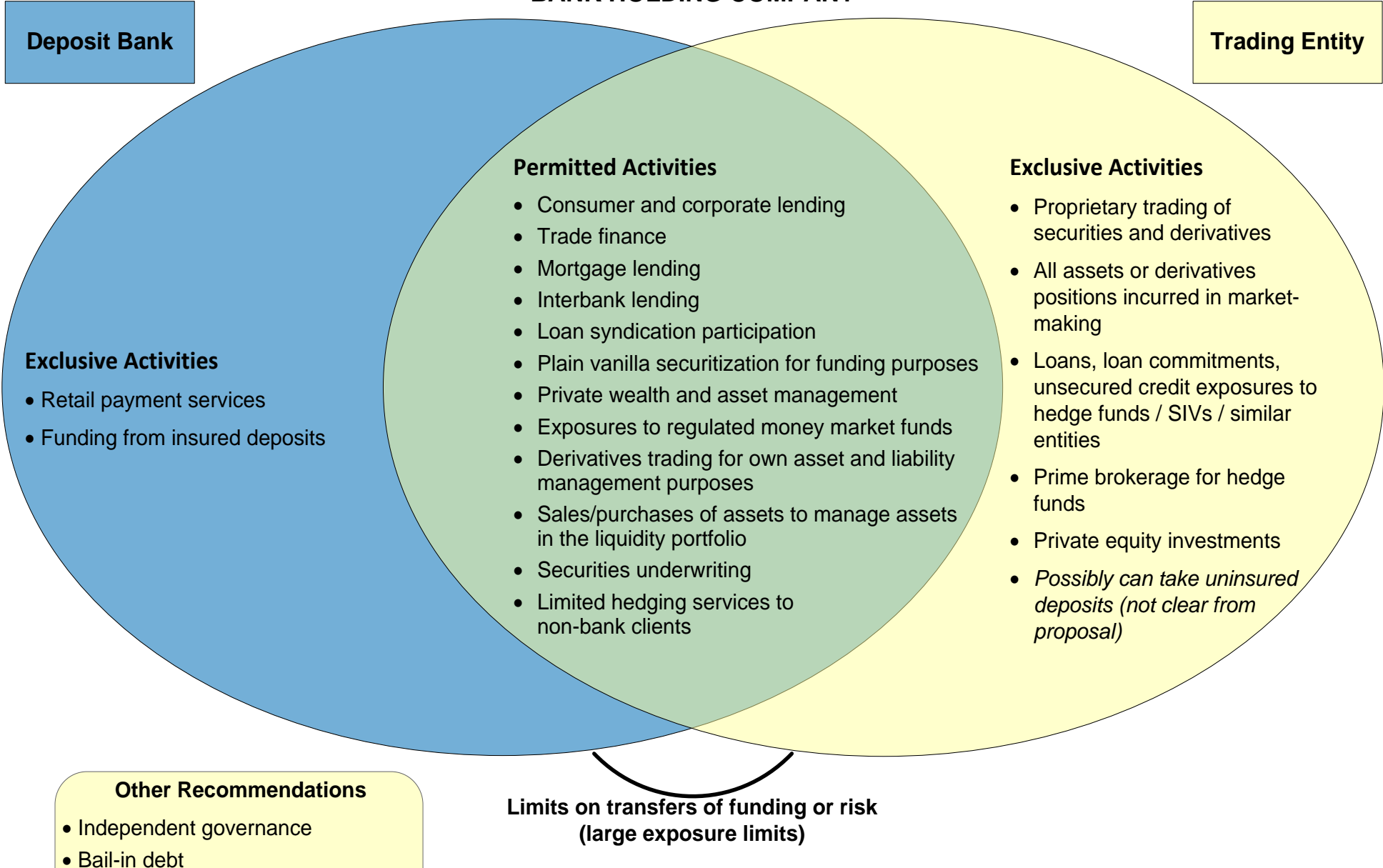
- These slides provide a high-level comparison of the similarities and differences among:¹
 - the U.S. bank holding company ("**BHC**") structure, pre-Volcker Rule and post-Volcker Rule;
 - the UK banking reform proposal, based on the Vickers report;² and
 - the proposal from the Liikanen Group.
- Key areas for comparison:
 - Deposit-taking
 - Securities underwriting, dealing and trading
 - Intra-group transaction restrictions
 - Geographic restrictions
 - Capital requirements
 - Corporate governance

¹ Familiarity with the Vickers and Liikanen proposals and U.S. banking regulation is assumed; many details are omitted here.

² The details in this presentation reflect the UK Government's proposal for implementing the Vickers recommendations, as set out in the October 2012 draft banking reform legislation, the policy document accompanying the legislation, and the June 2012 white paper. On some issues addressed here, the Government's views diverge from the Vickers recommendations.

Liikanen Proposal*

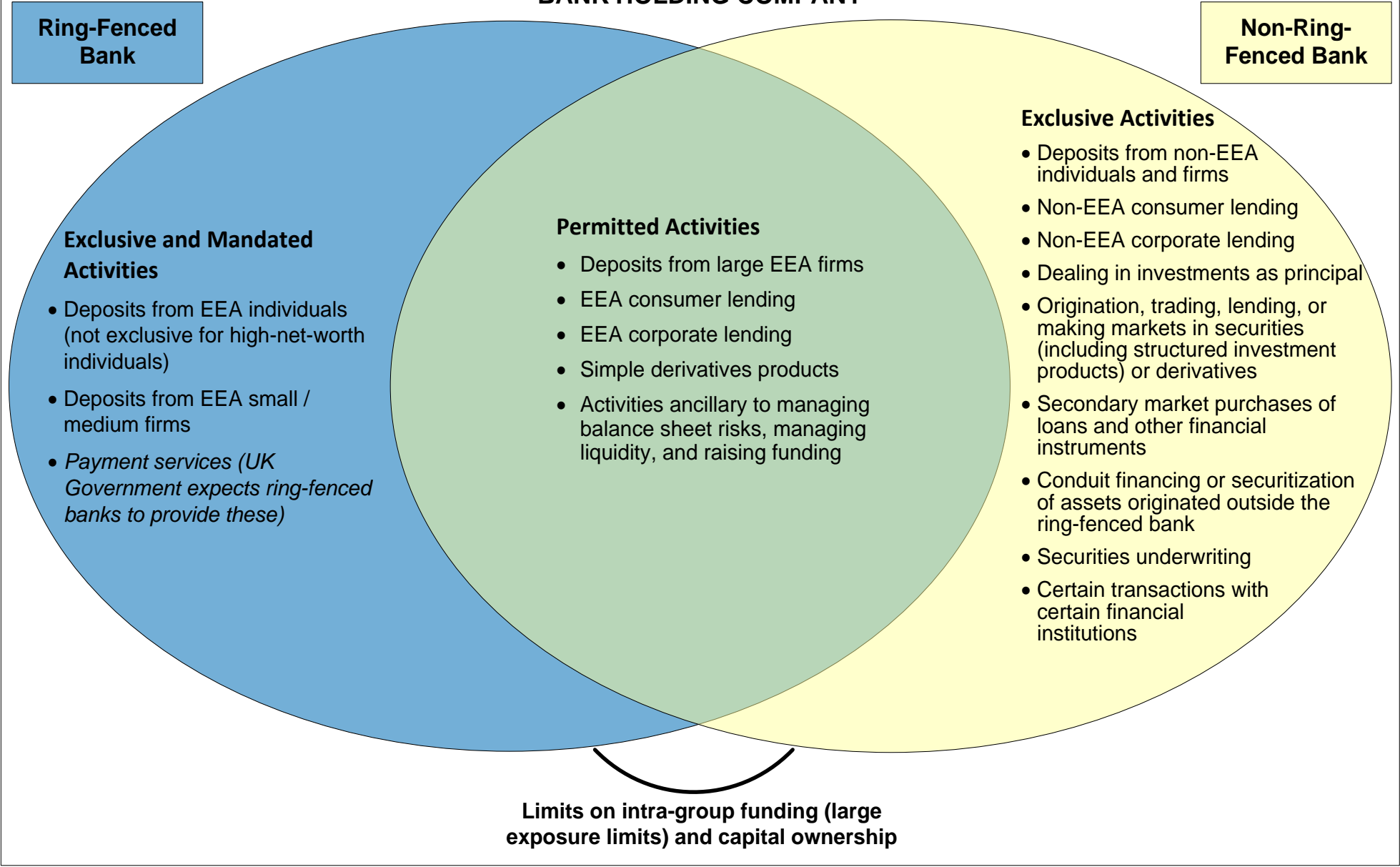
BANK HOLDING COMPANY



* Information on this slide is presented at a high level of generality based on the proposal. Many details are omitted or are not yet available.

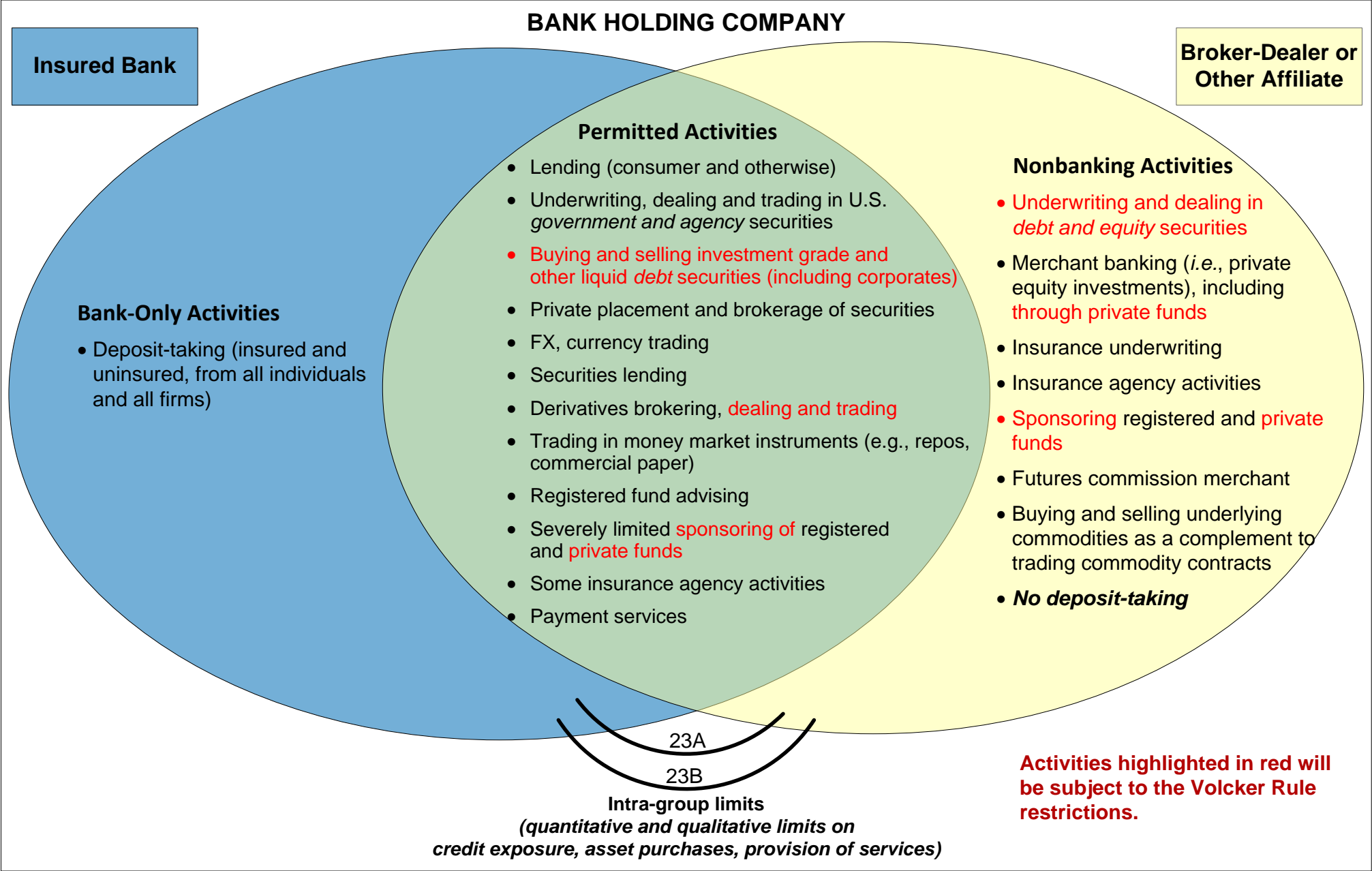
UK Proposal (Vickers)*

BANK HOLDING COMPANY



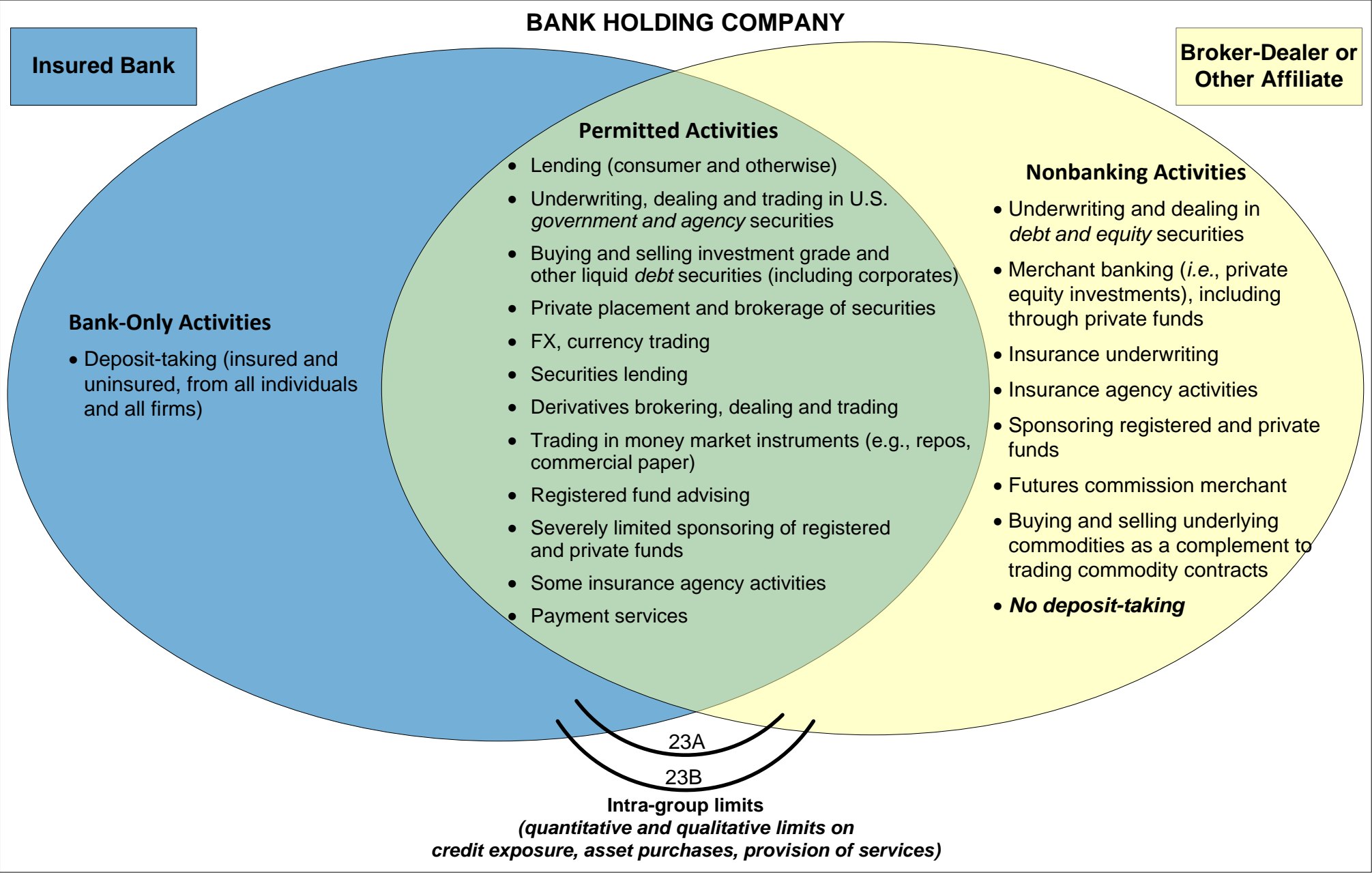
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U.S. Banking Structure – Post-Volcker Rule*



* Information on this slide is presented at a high level of generality. Many details are omitted.

U.S. Banking Structure – Pre-Volcker Rule*



* Information on this slide is presented at a high level of generality. Many details are omitted.

Deposits

Deposits			
U.S. Pre-Volcker Rule	U.S. Post-Volcker Rule	UK Proposal (Vickers)	Liikanen Proposal
<ul style="list-style-type: none"> A bank – an insured bank, if retail depositors are involved – is the only entity in a bank holding company structure that may take deposits. An insured bank may take insured and uninsured deposits, from all individuals and from firms of all sizes. No specific geographic limits on deposit-taking, except for antitrust-style deposit caps on a per-U.S. state basis. 	<ul style="list-style-type: none"> Same as pre-Volcker Rule. 	<ul style="list-style-type: none"> The ring-fenced bank is allowed to take deposits (insured and uninsured) <i>only</i> from EEA individuals and EEA small / medium firms. It is the only entity that may take these deposits. Both the ring-fenced bank and the non-ring-fenced bank may take deposits (insured and uninsured) from EEA high-net-worth individuals and larger firms. Only the non-ring-fenced bank may take deposits from non-EEA individuals and firms. 	<ul style="list-style-type: none"> Insured deposits are only in the deposit bank, with no limits on the type of depositor or geographic scope. The trading entity cannot take insured deposits, but appears to be permitted to take uninsured deposits.

Securities Underwriting

Securities Underwriting, Dealing and Trading

U.S. Pre-Volcker Rule	U.S. Post-Volcker Rule	UK Proposal (Vickers)	Liikanen Proposal
<ul style="list-style-type: none"> An insured bank may underwrite and deal only in U.S. government and agency securities, but may buy and sell investment grade and other liquid debt securities (including corporates). A broker-dealer affiliate may underwrite, deal and trade in all debt and equity securities. As a practical matter, the broker-dealer affiliate handles the securities underwriting activities in most BHCs. 	<ul style="list-style-type: none"> Same as pre-Volcker Rule for underwriting and dealing of U.S. government and agency securities by insured bank. All underwriting, dealing and trading of non-U.S.-government debt and equity through a “trading account” of an insured bank or any affiliate in a BHC structure must be conducted pursuant to the conditions of certain “permitted activities” (e.g., underwriting and market-making related activities, hedging, trading “on behalf of customers”). All sponsorship of, investment in and relationships with hedge funds and private equity funds must also be conducted pursuant to a “permitted activity.” 	<ul style="list-style-type: none"> The ring-fenced bank is prohibited from underwriting any type of securities. The non-ring-fenced bank may underwrite all types of securities. 	<ul style="list-style-type: none"> The deposit bank and the trading entity may underwrite all types of securities.

Initially, the Glass-Steagall Act severely, and later significantly, restricted affiliations between insured banks and securities affiliates. As shown above, however, underwriting, dealing and trading activity occurs in different entities in the bank holding company in the current models. None represents a return to Glass-Steagall.

Intra-Group Restrictions

Intra-Group Restrictions

U.S. Pre-Volcker Rule	U.S. Post-Volcker Rule	UK Proposal (Vickers)	Liikanen Proposal
<ul style="list-style-type: none"> ▪ Covered transactions between an insured bank and any non-bank affiliate, including asset purchases and credit exposures, are limited to 10% of the bank's capital stock and surplus for transactions with a single affiliate; and a 20% aggregate limit for all covered transactions with all affiliates. ▪ Exemptions exist, such as for intraday extensions of credit, or credit exposures fully secured by cash or U.S. government securities. ▪ Loans and certain other transactions must be adequately collateralized at the time of the transaction. ▪ The Federal Reserve may grant exemptions from the 23A limits; see, e.g., the 2008 waiver of limits on collateralized loans to banks' broker-dealer affiliates. ▪ Under 23B, transactions and services between an insured bank and any non-bank affiliate generally must be on market terms. 	<ul style="list-style-type: none"> ▪ Same limits as pre-Volcker Rule, but the Dodd-Frank Act expanded the scope of transactions that are subject to limits, among other changes. ▪ All transactions that are required to be collateralized must be adequately collateralized <i>at all times</i>. ▪ Expanded scope of covered transactions, definition of affiliate. ▪ Exemptions require the approval of the Federal Reserve and the bank's primary federal banking regulator based on certain qualitative conditions and are subject to a veto by the Federal Deposit Insurance Corporation. 	<ul style="list-style-type: none"> ▪ There are limits on payments from the ring-fenced bank to other members of the banking group and on funding to the ring-fenced bank from the rest of the group. ▪ Intra-group transactions must be on market terms and are subject to the large exposure limits, <i>i.e.</i>, 25% of regulatory capital, with recommended additional limits on intra-group secured exposures and the quality of their collateral. ▪ The ring-fenced bank may not own or hold the capital of non-ring-fenced affiliates. ▪ The ring-fenced bank cannot use non-ring-fenced banks to access business-critical UK payment systems. ▪ Possible limits on intra-group guarantees, cross-default clauses, and derivative netting agreements. 	<ul style="list-style-type: none"> ▪ Transfers of risks or funds between the deposit bank and the trading entity must be on market-based terms. ▪ Transfers are subject to the large exposure limits for interbank transactions. ▪ Direct or indirect transfers of risks or funds from the deposit bank to the trading entity are not permitted if capital adequacy would be jeopardized.

Geographic Restrictions

Geographic Restrictions

U.S. Pre-Volcker Rule	U.S. Post-Volcker Rule	UK Proposal (Vickers)	Liikanen Proposal
<ul style="list-style-type: none"> ▪ There are no effective geographic limits on an insured bank's customer base or activities. ▪ Although some historical geographic restrictions formally remain in the form of interstate banking limits and deposit caps, they do not impose significant limits on the insured bank's activities. ▪ Insured banks and their affiliates may engage in certain activities outside the United States that they may not engage in domestically. 	<ul style="list-style-type: none"> ▪ Same as pre-Volcker Rule. 	<p>The ring-fenced bank:</p> <ul style="list-style-type: none"> ▪ Is limited to serving EEA customers and providing services in the EEA; ▪ Cannot carry out any banking activities through non-EEA subsidiaries or branches; and ▪ Can have non-EEA counterparties and hold non-EEA assets if these activities would not impede the bank's resolution. 	<ul style="list-style-type: none"> ▪ There are no geographic limits on the deposit bank's customer base or activities.

Capital Requirements

Capital Requirements

U.S. Pre-Volcker Rule	U.S. Post-Volcker Rule	UK Proposal (Vickers)	Liikanen Proposal
<ul style="list-style-type: none"> ▪ The insured bank and the holding company must separately meet Basel capital requirements. ▪ The broker-dealer affiliate is not required to meet Basel capital requirements on a standalone basis; separate capital requirements are set out by the SEC (including a recent proposal for increased minimum net capital for the largest broker-dealers). 	<ul style="list-style-type: none"> ▪ Basel III implementation in progress at an uncertain pace. ▪ The broker-dealer affiliate is not required to meet Basel capital requirements on a standalone basis; separate capital requirements are set out by the SEC (including a recent proposal for increased minimum net capital for the largest broker-dealers). 	<ul style="list-style-type: none"> ▪ The ring-fenced bank must meet capital and liquidity requirements under CRD IV and CRR on a standalone basis. ▪ All ring-fenced banks must hold an additional 3.5% of primary loss-absorbing capacity above Basel III standards. ▪ Large ring-fenced banks must hold an additional 3% equity “ring-fence buffer” on top of the Basel III standards, but this will not be in addition to a G-SIB surcharge. 	<ul style="list-style-type: none"> ▪ The deposit bank and the trading entity must separately meet capital requirements under CRD IV and CRR. ▪ The Group recommended higher capital requirements for the trading book and real estate lending and suggested that the EC assess whether the expected proposed amendments to the Basel trading-book capital requirements are sufficient to address the risks of the deposit bank and the trading entity.

Corporate Governance

Corporate Governance

U.S. Pre-Volcker Rule	U.S. Post-Volcker Rule	UK Proposal (Vickers)	Liikanen Proposal
<ul style="list-style-type: none"> ▪ The insured bank is a separate legal entity. ▪ Boards of directors of U.S. banks and bank holding companies are subject to limited independence requirements imposed by banking regulators, and, where applicable, the SEC and securities exchanges. ▪ See, e.g., audit committee independence requirements. 	<ul style="list-style-type: none"> ▪ Largely the same as pre-Volcker Rule. ▪ Post-Dodd-Frank changes include a new independent risk committee requirement for large, publicly traded bank holding companies. 	<ul style="list-style-type: none"> ▪ The ring-fenced bank must be a separate legal entity, except for banks with £25 billion or less in individual and SME deposits. ▪ The board of the ring-fenced bank must be independent, with at least half the members, excluding the Chair, being independent. ▪ The Chair must be independent upon appointment. ▪ No more than one-third of the ring-fenced bank's board may be representatives of the rest of the banking group. ▪ The directors of the ring-fenced bank and its parent will have an additional duty to protect the ring-fence. 	<ul style="list-style-type: none"> ▪ The deposit bank must be a separate legal entity if the activities to be separated are a significant share of the bank's business or if their volume is significant in terms of financial stability. ▪ The proposal recommends a general strengthening of banks' boards and management. ▪ The Group considered a requirement that the boards and governance of the deposit bank and the trading entity be independent of each other, but did not explicitly include this in the proposal.