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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Davis Polk

Davis Polk & Wardwell LLP

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

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.



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



Liikanen Proposal*

BANK HOLDING COMPANY Deposit Bank Trading Entity Permitted Activities Exclusive Activities Consumer and corporate lending · Proprietary trading of securities and derivatives Trade finance Mortgage lending All assets or derivatives positions incurred in market- Interbank lending making Loan syndication participation **Exclusive Activities** Loans, loan commitments, • Plain vanilla securitization for funding purposes unsecured credit exposures to • Private wealth and asset management • Retail payment services hedge funds / SIVs / similar • Exposures to regulated money market funds • Funding from insured deposits entities · Derivatives trading for own asset and liability Prime brokerage for hedge management purposes funds • Sales/purchases of assets to manage assets in the liquidity portfolio • Private equity investments Securities underwriting · Possibly can take uninsured · Limited hedging services to deposits (not clear from non-bank clients proposal) **Other Recommendations** Limits on transfers of funding or risk Independent governance (large exposure limits) • Bail-in debt

Executive compensation limits

and resolution plans

• Activities permitted for deposit bank

can be further limited by recovery

^{*} 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.



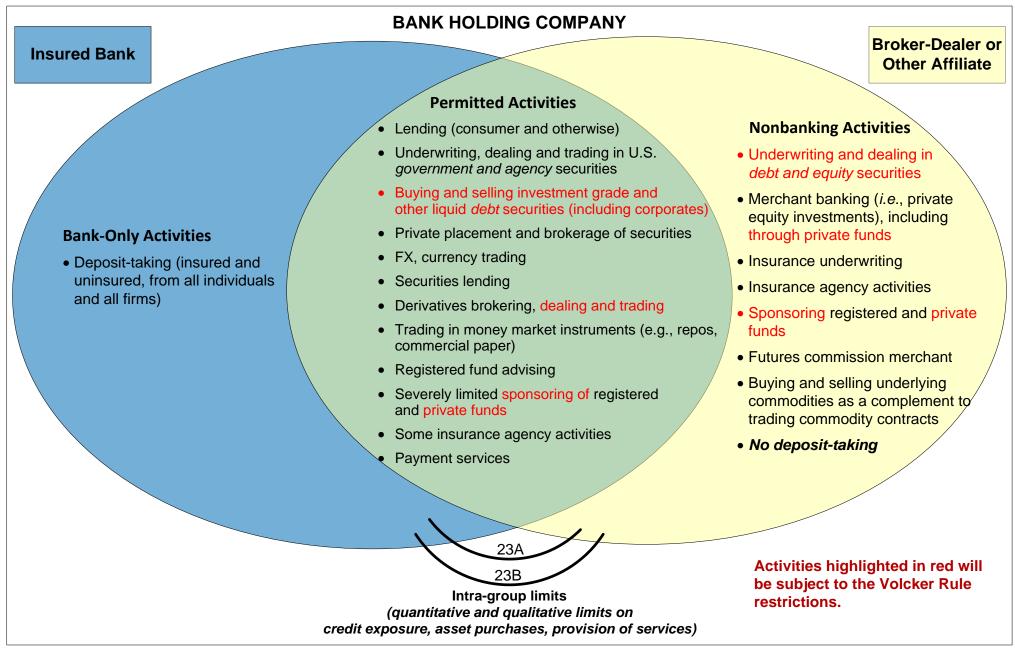
UK Proposal (Vickers)*

BANK HOLDING COMPANY Ring-Fenced Non-Ring-Bank **Fenced Bank Exclusive Activities** Deposits from non-EEA individuals and firms Non-EEA consumer lending **Permitted Activities Exclusive and Mandated** Non-EEA corporate lending • Deposits from large EEA firms **Activities** Dealing in investments as principal EEA consumer lending • Origination, trading, lending, or • Deposits from EEA individuals making markets in securities (not exclusive for high-net-worth EEA corporate lending (including structured investment individuals) Simple derivatives products products) or derivatives • Deposits from EEA small / Activities ancillary to managing Secondary market purchases of medium firms loans and other financial balance sheet risks, managing instruments liquidity, and raising funding Payment services (UK) • Conduit financing or securitization Government expects ring-fenced of assets originated outside the banks to provide these) ring-fenced bank Securities underwriting · Certain transactions with certain financial institutions Limits on intra-group funding (large exposure limits) and capital ownership

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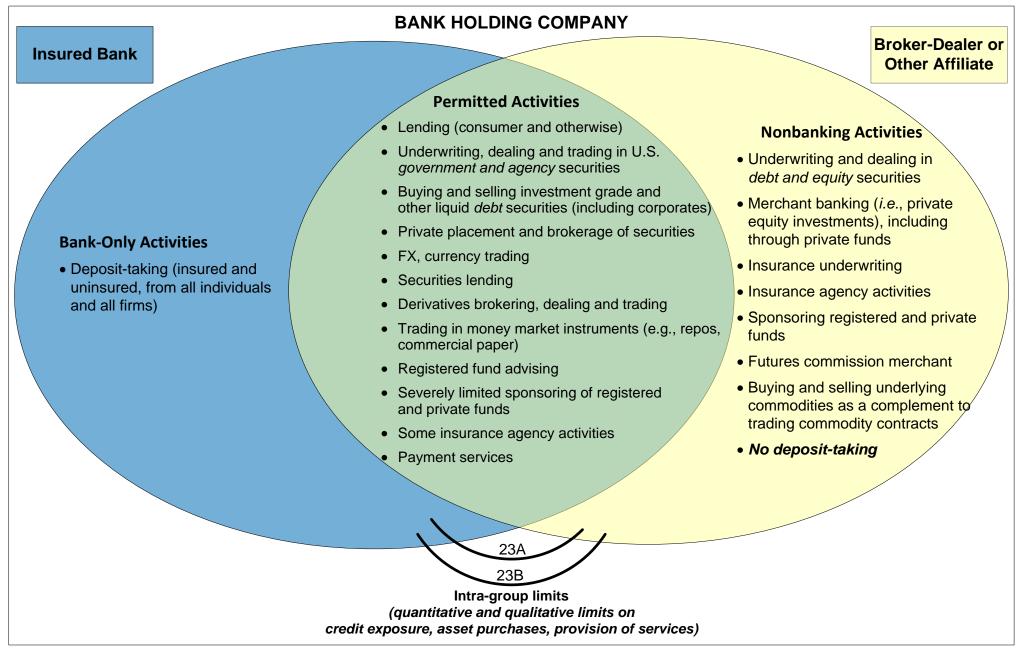
U.S. Banking Structure – Post-Volcker Rule*



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



U.S. Banking Structure – <u>Pre</u>-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		
 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. 	Same as pre-Volcker Rule.	 The ring-fenced bank is allowed to take deposits (insured and uninsured) only 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. 	 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** An insured bank may Same as pre-Volcker Rule for The ring-fenced bank The deposit bank and the underwrite and deal only in underwriting and dealing of U.S. is prohibited from trading entity may U.S. government and agency government and agency securities underwriting any type underwrite all types of securities, but may buy and sell by insured bank. of securities. securities. investment grade and other liquid debt securities (including All underwriting, dealing and trading of non-U.S.-government debt and The non-ring-fenced corporates). equity through a "trading account" of bank may underwrite A broker-dealer affiliate may an insured bank or any affiliate in a all types of securities. underwrite, deal and trade in all BHC structure must be conducted debt and equity securities. pursuant to the conditions of certain "permitted activities" (e.g., As a practical matter, the underwriting and market-making broker-dealer affiliate handles related activities, hedging, trading the securities underwriting "on behalf of customers"). activities in most BHCs. All sponsorship of, investment in and relationships with hedge funds and private equity funds must also be conducted pursuant to a "permitted activity."

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

- 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' brokerdealer affiliates
- Under 23B, transactions and services between an insured bank and any non-bank affiliate generally must be on market terms.

U.S. Post-Volcker Rule

- 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 at all times.
- 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.

UK Proposal (Vickers)

- 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.e., 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-ringfenced 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.

Liikanen Proposal

- 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		
 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. 	Same as pre-Volcker Rule.	 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. 	 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** The insured bank and the Basel III implementation in The ring-fenced bank The deposit bank and the holding company must progress at an uncertain must meet capital and trading entity must separately meet Basel liquidity requirements separately meet capital pace. under CRD IV and CRR capital requirements. requirements under CRD The broker-dealer affiliate on a standalone basis. IV and CRR. The broker-dealer affiliate is not required to meet is not required to meet Basel capital requirements All ring-fenced banks must The Group recommended Basel capital requirements on a standalone basis: hold an additional 3.5% of higher capital on a standalone basis: primary loss-absorbing requirements for the separate capital separate capital requirements are set out capacity above Basel III trading book and real requirements are set out by the SEC (including a standards. estate lending and by the SEC (including a recent proposal for suggested that the EC recent proposal for increased minimum net Large ring-fenced banks assess whether the increased minimum net capital for the largest must hold an additional expected proposed capital for the largest broker-dealers). 3% equity "ring-fence amendments to the Basel broker-dealers). buffer" on top of the Basel trading-book capital III standards, but this will requirements are sufficient not be in addition to a Gto address the risks of the SIB surcharge. 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			
 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. 	 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. 	 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. 	 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. 			

