

# Global Banking Regulation



**Date & Time:** Tuesday, May 01, 2012; 04:00 PM - 05:15 PM

**Moderator:**

James Barth, Senior Finance Fellow, Milken Institute; Lowder Eminent Scholar in Finance, Auburn University

**Speakers:**

Madelyn Antoncic, Vice President and Treasurer, The World Bank Group

Chris Brummer, Senior Fellow, Milken Institute; Professor of Law, Georgetown University Law Center

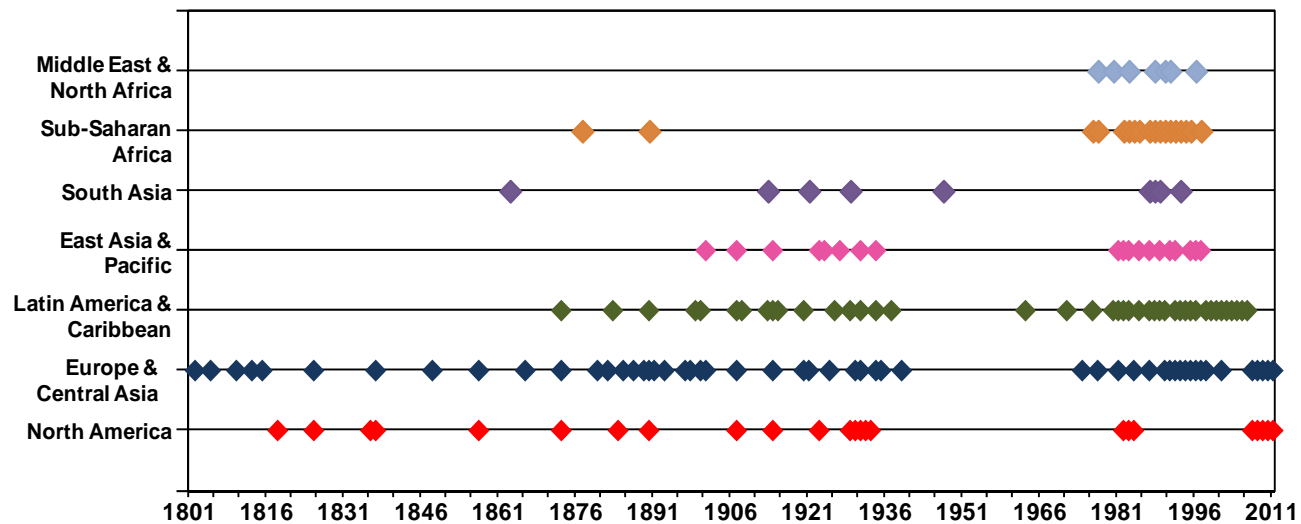
Mary Ellen Iskenderian, President and CEO, Women's World Banking

Bo Lundgren, Director General, Swedish National Debt Office

Michael Taylor, Member of the Secretariat, Financial Stability Board, Bank of International Settlements

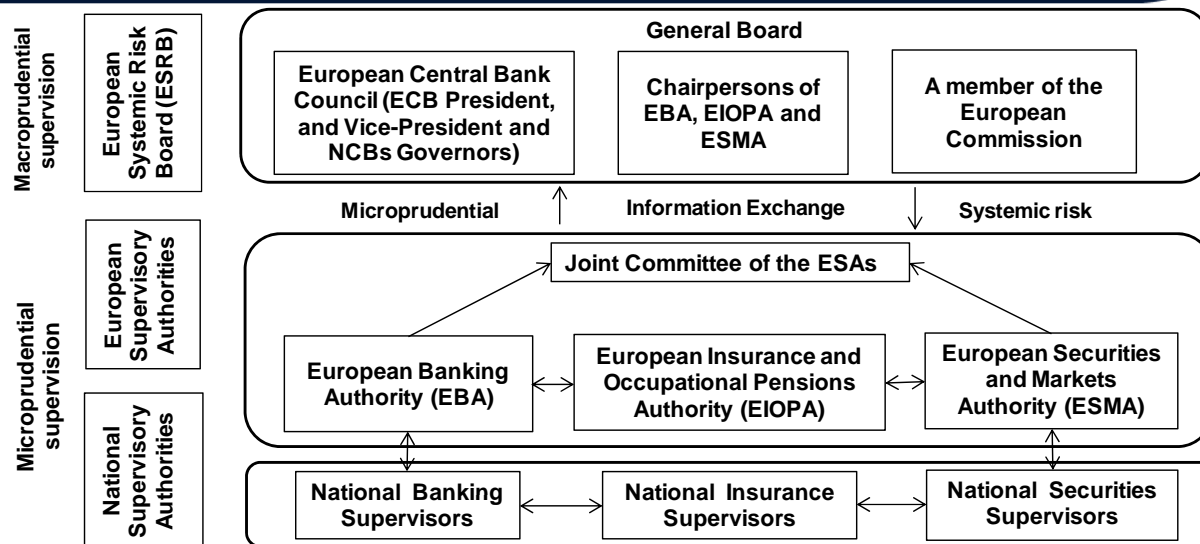
# History of banking crises worldwide

*More frequent (and more severe)*



Sources: Reinhart and Rogoff (2008), Milken Institute.

# New EU regulatory structure



Source: Xavier Vives (2012).

# G20 regulatory reform agenda

## Key elements and status



- Agreed (international guidelines) or accomplished (national implementation)
- Work in progress
- Insufficient process
- Nothing available to implement

International guidelines



Bank capital and liquidity

SIFI framework

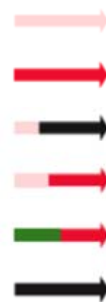
Shadow banking

OTC derivatives

Credit ratings

Data initiatives

National guidelines



Notes: OTC = over-the-counter; SIFI = systemically important financial institutions.  
Source: International Monetary Fund.

## Financial Stability Board



- **The FSB coordinates the work of national financial authorities and international standard setting bodies to develop and promote financial stability.**
- **It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.**

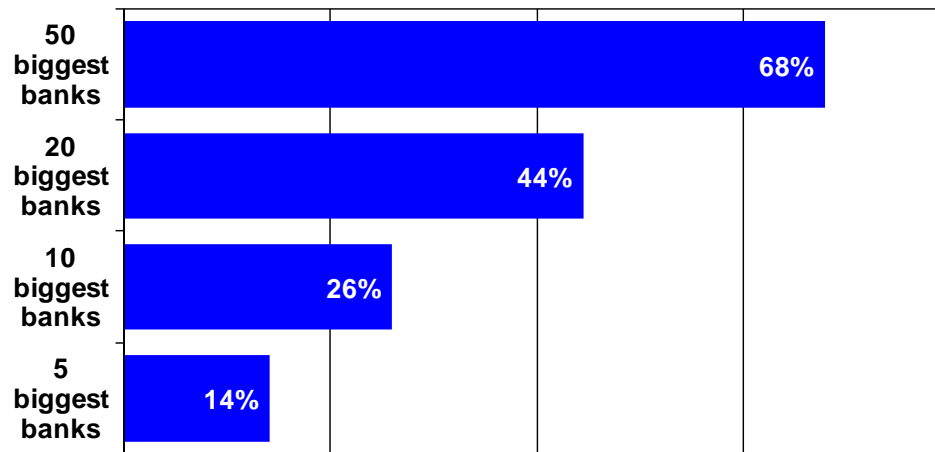
## Financial Stability Board

- **Not a “global financial regulator”**
- **Guiding hand in standard setting process**
- **Co-ordination on implementation of international standards**
- **Co-ordination on supervision of cross-border groups**
- **Assessment of cross-border vulnerabilities**

# Concentration of banking assets worldwide



Percent of banking assets worldwide



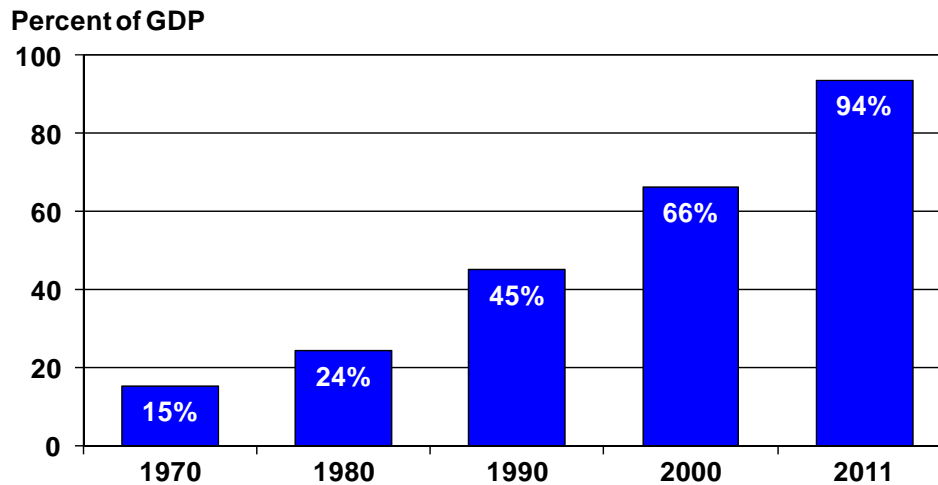
Note: \$96.5 trillion in assets in 2011.  
Sources: The Banker, Milken Institute.

**“[T]he G20 must put in place a credible regime for managing the orderly failure of financial institutions, however large, complex or international.”**

*Paul Tucker  
Deputy Governor of  
the Bank of England and  
a member of Financial  
Stability Board  
Financial Times  
January 31, 2012*

# Fifty biggest banks in the world get bigger

Combined assets of the world's 50 biggest banks



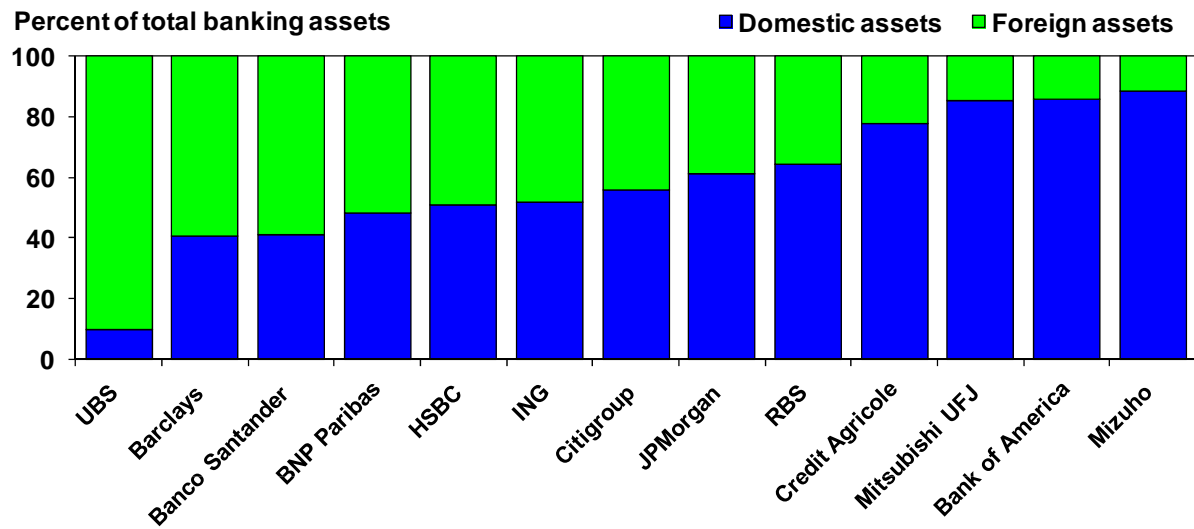
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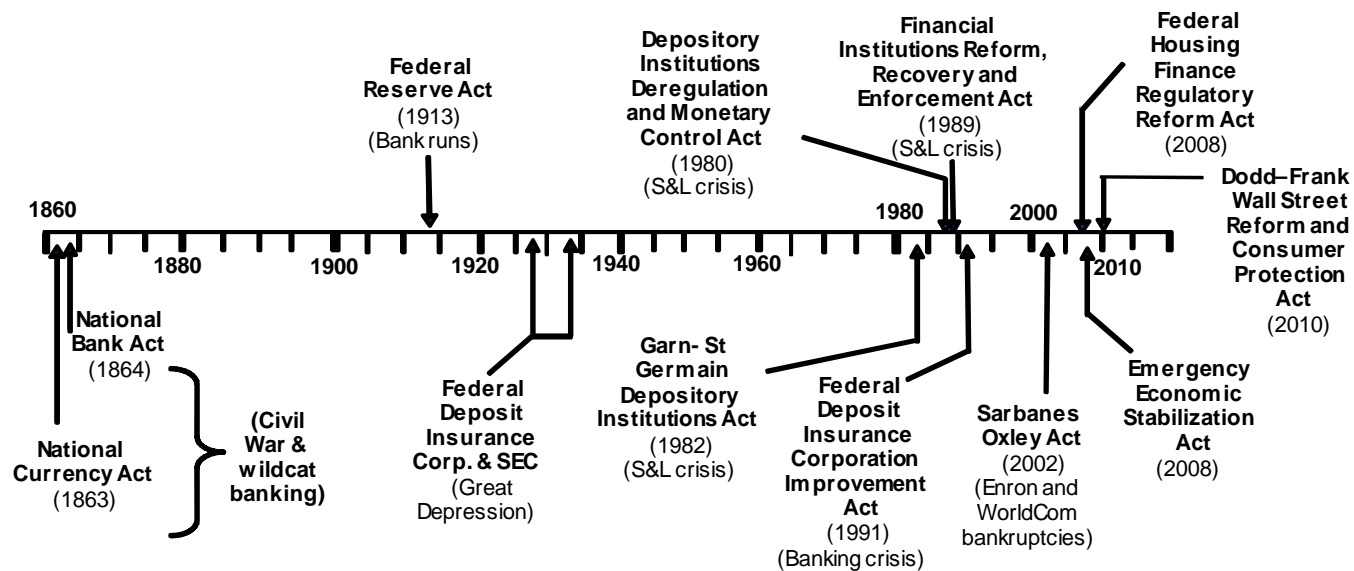
# Cross-border banking for selected big banks



Note: Data as of 2010.  
Source: Bloomberg.

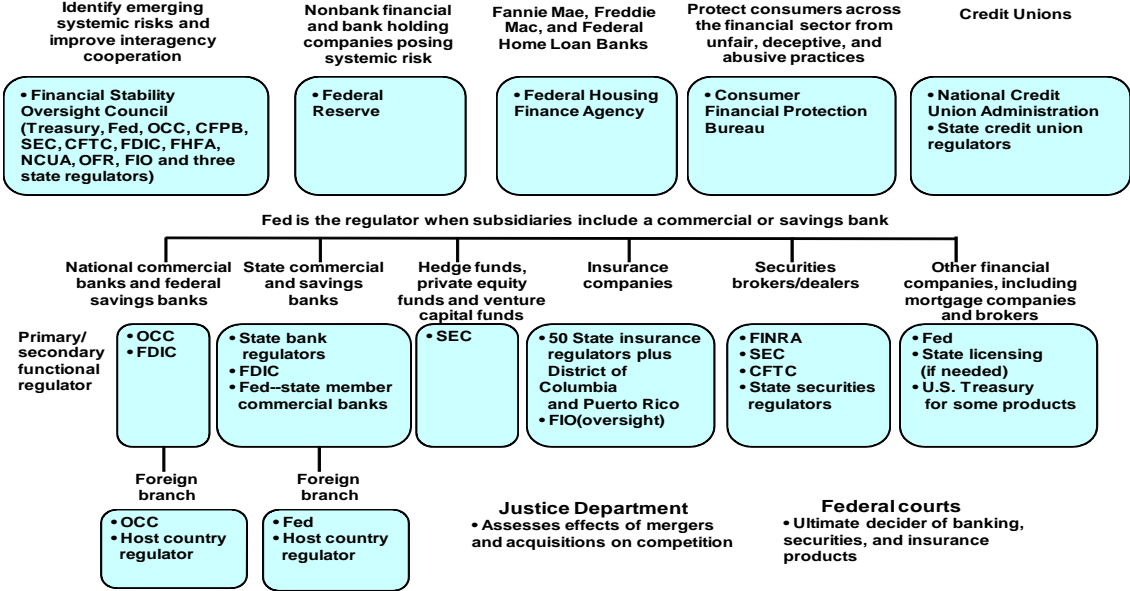
# History of U.S. banking laws

*More regulators and more regulations after every crisis*



Source: Milken Institute.

# New U.S. regulatory structure



Source: Milken Institute.

## What will be the impact of the U.S. Dodd-Frank Act?



**“Has anyone bothered to study the cumulative effect of these” regulatory and market fixes?**

*Jamie Dimon  
JPMorgan Chase CEO  
June 7, 2011*

**“The central bank doesn’t have the quantitative tools to study the net impact of all the regulatory and market changes over the last three years... It’s too complicated” to study the new regulations’ affects.**

*Ben Bernanke  
Fed Chairman  
June 7, 2011*

## What will be the impact of tougher regulators?



**“It is...possible that bank regulators, in an effort to bolster their reputation for toughness and prevent what they see as “systemic risk,” will act to suppress risk-taking in general, limiting innovation and dynamism in the economy.”**

*Richard Fisher and Harvey Rosenblum*

*FRB of Dallas*

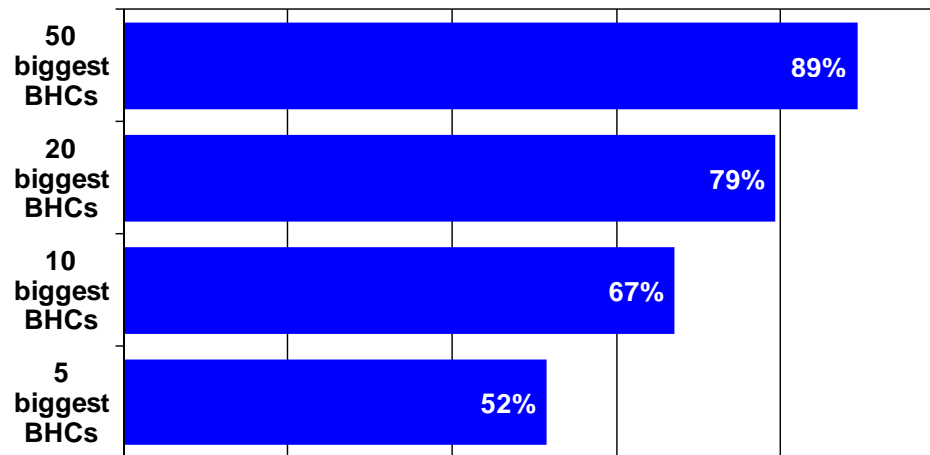
*Wall Street Journal*

*April 4, 2012*

# Concentration of U.S. banking assets



Percent of bank holding companies assets



Note: \$16.5 trillion in assets in 2011.  
Sources: The Banker, Milken Institute.

**“We can select the road to enhanced financial efficiency by breaking up TBTF banks.... Or...we almost certainly will face the prospect of again using taxpayer funds to rescue big banks.”**

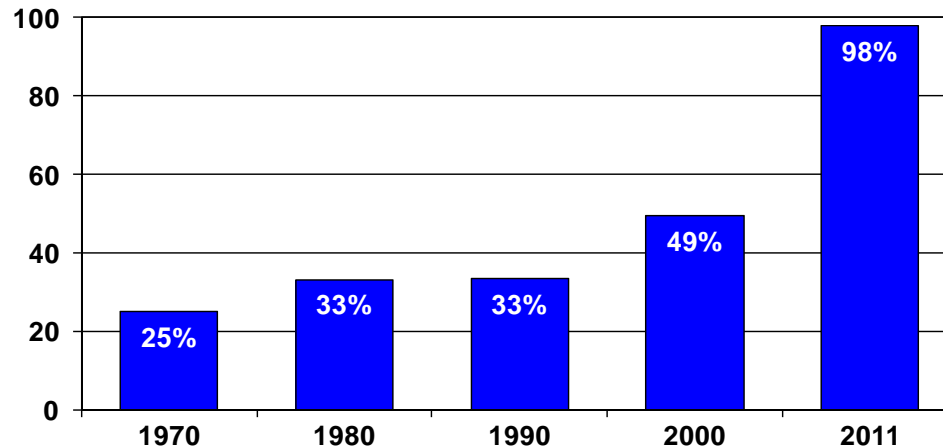
*Richard Fisher and  
Harvey Rosenblum  
FRB of Dallas  
Wall Street Journal  
April 4, 2012*

## Fifty biggest U.S. banks get bigger



### Combined assets of the 50 biggest bank holding companies

Percent of GDP



Sources: The Banker, Milken Institute.

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# U.S. Senators Brown and Kaufman amendment on Too Big To Fail

*Limits non-deposit liabilities to 2% of GDP*



## Impact on 5 biggest banks

Bank holding company	Total assets (US\$ bn)	Total assets (% of GDP)	Non-deposit liabilities (US\$ bn)	Non-deposit liabilities (% of GDP)	Non-deposit liabilities exceeding 2% of GDP (US\$ bn)
JPMorgan Chase	2,266	14.8	1,138	7.4	819
Bank of America	2,129	13.9	1,103	7.2	785
Citigroup	1,874	12.2	1,005	6.6	688
Wells Fargo	1,314	8.6	393	2.6	86
Goldman Sachs Group	924	6.0	878	5.7	563

Note: Data as of December 31, 2011.  
Sources: Bloomberg, Milken Institute.

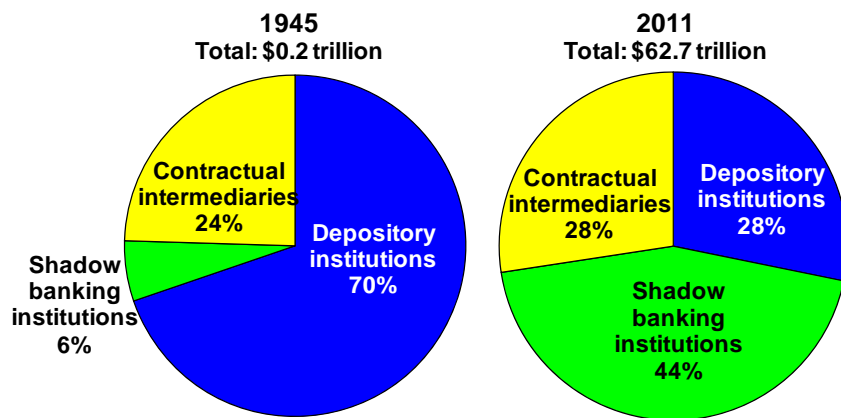


# Shadow banking grows in importance

*Represents 20-30% of the world financial sector*



Share of U.S. financial assets  
by type of financial institution



**“Regulation has done some good, but more work needs to be done to prevent shadow credit intermediation from continuing to be a source of systemic concern.”**

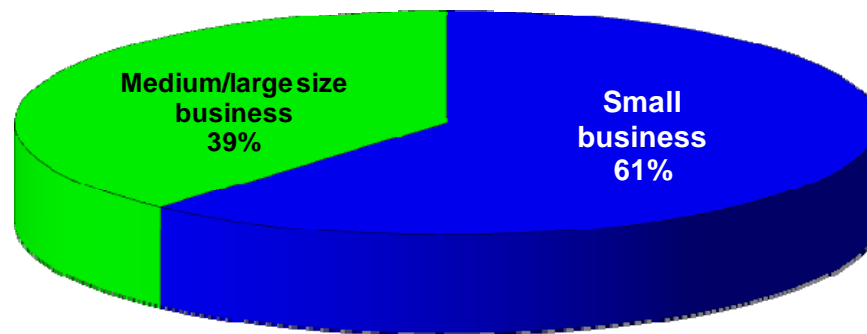
*Tobias Adrian and Adam Ashcraft  
FRB of New York  
April 2011*

Sources: Federal Reserve Board, Financial Times, Milken Institute.

## U.S. small businesses account for 61% of private sector job growth in past 15 years



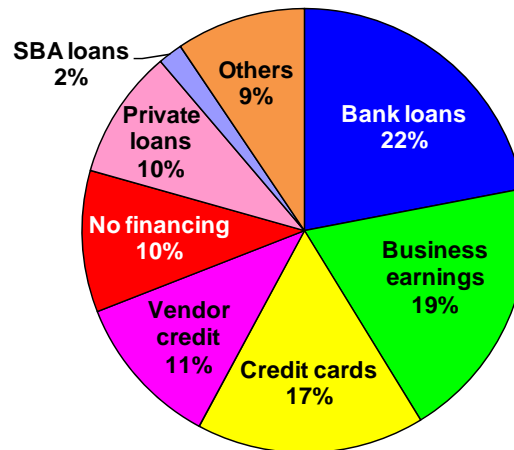
Total net job gains: 9.2 million  
1996 - 2011Q2



Note: Small business < 500 employees.  
Sources: US Bureau of Labor Statistics, Milken Institute.

## Small businesses raise only 22% of their capital from banks

Percent of survey respondents  
July 2011



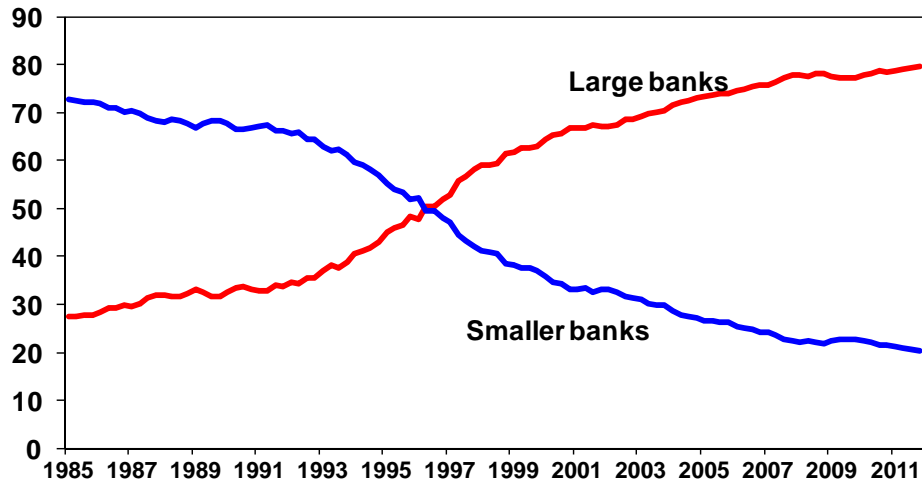
36% of small-business owners feel they are **NOT** able to obtain adequate financing.

## Large banks overtake smaller banks

*Share of assets of all U.S. depository institutions*



Percent of total banking assets



**“Less lending among smaller banks signals continued tough times for small businesses, typically an important contributor to economic growth.”**

*David Reilly  
Wall Street Journal  
February 14, 2012*

Note: Large banks are banks with assets > \$10 billion.  
Source: Federal Deposit Insurance Corporation.

## Mobile banking vs. “old-school” banking to provide financial services to the poor

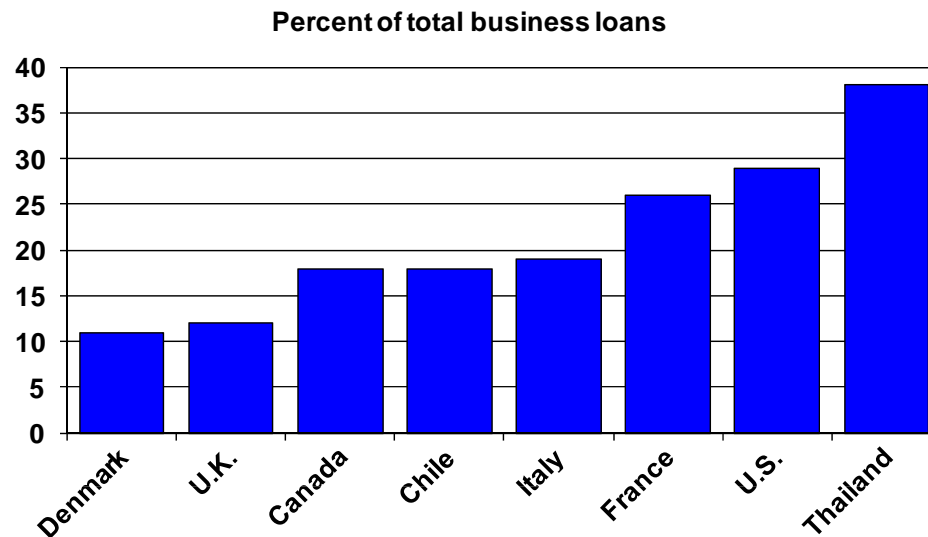


“[T]he poor are stuck using cash.... [It] has never been profitable to put bank branches in the slums and rural villages where poor people live.... Mobile technology is a solution for the roughly one billion people who already have a phone but who don’t have a bank account.... [T]he World Bank and the Gates Foundation are already investing heavily in these new technologies for providing the poor with financial services.”



*David Wolman  
Wall Street Journal  
February 11-12, 2012*

## Small and medium enterprises loan share of total business loans



“SME loan shares ... [are] well below the respective contribution by SMEs to national income and employment.”

OECD  
2012

Note: Data as of 2010.  
Source: OECD.