

JPMorgan \$12.5 Billion Short in Fed Systemic-Risk Charges

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By Ian Katz and Jesse Hamilton

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(Updates with bank analyst's comment in seventh paragraph.)

(Bloomberg) -- JPMorgan Chase & Co. still has a shortfall of as much as \$12.5 billion in meeting capital rules approved by the Federal Reserve on Monday.

The Fed assigned capital charges totaling more than \$200 billion for eight of the biggest and most complex U.S. banks to mitigate the danger that they could threaten the financial system. The extra capital requirements, or surcharges, range from 1 percent to 4.5 percent of the banks' risk-weighted assets, leaving the firms to choose between expensive capital demands or getting smaller.

"They must either hold substantially more capital, reducing the likelihood that they will fail, or else they must shrink their systemic footprint, reducing the harm that their failure would do to our financial system," Fed Chairman Ben Bernanke said in a statement. By continuing to use this site, you agree to our cookie policy.

JPMorgan -- the biggest U.S. bank by assets -- faces the full brunt of the rule, with a 4.5 percent cushion, while Citigroup [Inc. #http://www.citigroup.com/press-releases/20150715-01.html](#), with a 3.5 percent cushion, Goldman Sachs Group Inc., Morgan Stanley and Bank of America Corp. are all at 3 percent. Wells Fargo & Co. is at 2 percent, while State Street Corp. and Bank

of New York Mellon Corp. are at the low end -- 1.5 percent and 1 percent.

Narrowed Shortfall

The Fed said seven of the eight already meet the capital demand, which doesn't go into effect until 2019. JPMorgan was previously identified as the only institution facing a shortfall, which was more than \$20 billion when the rule was first proposed in December but has been narrowed as the company has cut more than \$100 billion in non-operating deposits -- extra cash held in client accounts -- and billions in trading assets.

Andrew Gray, a JPMorgan spokesman, said the company was still reviewing the rule and didn't yet have a comment.

"We all feel pretty comfortable with their ability to get where they need to be," said Charles Peabody, an analyst at Portales Partners, in a phone interview. "What we're all trying to understand is the impact of this on profitability and banks' ability to return capital to shareholders."

The agency made some changes the lenders had asked for. In response to industry complaints, the Fed changed the final version to reduce the hazard that U.S. firms could face a harsher standard as the dollar gains against foreign currencies. The rule incorporates an average exchange rate over a three-year period instead of using the daily spot rate.

Phased In

The new requirements for the eight firms will be phased in from 2016 to 2019, according to the Fed.

The rule subjects U.S. firms to capital requirements stricter than those faced by their peers abroad -- in some cases almost twice the extra capital demand faced by foreign competitors. The toughening of global standards, a practice known as gold-plating, reflects a view of U.S. regulators: Any bank big enough to potentially damage the financial system must maintain enough capital to ensure it doesn't fail.

The Clearing House Association, which represents Wall Street banks, said that while the final rule includes "some improvements" from the December proposal, it doesn't "take into account the dramatic reduction in systemic risk" stemming from lenders' efforts to reduce risks since the 2008 financial crisis.

This site uses cookies to ensure you get the best experience on our website. By continuing to use this site, you agree to our cookie policy. The rule is based on an international accord reached by the multi-nation Basel Committee on Banking Supervision. Fed Governor Daniel Tarullo said the Fed's version went in a different direction to give the banks more incentive to improve their scores, making their risk levels "based on a fixed measure of each

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firm's systemic importance, rather than -- as in the Basel method -- on a measure relative to that of other firms of global systemic importance."

Short-Term Funding

Also unlike the Basel agreement, U.S. firms will be evaluated on how much they rely on short-term funding -- even as the agency gave them a break on how it calculates that dependence in this final rule.

Tarullo said the central bank will also "need to consider whether and, if so, how to incorporate the surcharges" into the minimum capital levels required in the Fed's annual stress tests. He said he expects that Fed staff this year will develop recommendations including changes that would make the stress tests "better address systemic risks arising from correlations in the exposures and activities" of large banks.

The Fed said in December it was looking into factoring surcharges into the tests, though that would require a separate rule. On July 9, Fed Governor Lael Brainard said "it will be important to assess incorporating the risk-based capital surcharge in some form," reinforcing the industry's expectation it'll happen.

The agency also approved new standards for supervision of General Electric Co.'s finance unit. GE Capital is subject to Fed oversight because it's been designated a systemically important non-bank by the Financial Stability Oversight Council, a group of U.S. regulators, so the governors needed to act on the plan, even as they acknowledged the company is slashing the size and scope of the finance unit's activities.

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