

Global Money Dispatch

This week, large U.S. banks release their Y-15 reports for the second quarter, which will contain the inputs needed to derive second quarter G-SIB scores.

In this issue of Global Money Dispatch, we review how much the first quarter scores changed relative to the scores from the fourth quarter of 2019, and we'll try to anticipate where the second quarter scores will come in given regulatory changes and market trends since the start of the Covid-19 pandemic.

Regarding the first quarter scores, J.P. Morgan's score rose by 100 points – the biggest increase among all U.S. G-SIBs – which pushed it into the 4% capital surcharge bucket, up from the 3.5% bucket. J.P. Morgan's score is close to 200 points higher than the score of Citigroup – the bank with the next highest score – and it is 25 points away from the next higher surcharge bucket.

Other banks staged only marginal increases in their scores, and two banks, Morgan Stanley and Wells Fargo saw their scores fall. The increase in the scores of Citigroup, Goldman Sachs and Bank of America pushed these banks into a higher surcharge bucket as well, but they were on the cusp of a higher bucket at the end of last year, so their crossover into a higher bucket this year wasn't really unexpected. J.P. Morgan thus stands out as the bank whose score has been most impacted by market developments during the first quarter of 2020.

Regarding the likely path of the second quarter scores, three developments are worth noting. First, the April 1st, 2020 [exemption](#) of reserves and Treasuries from the calculation of the SLR will reduce "total leverage exposure" used to calculate the size systemic risk scores. This exemption, plus inputs already available from banks' Y-9C reports on securities outstanding, level 3 assets, and available-for-sale and trading securities that aren't HQLA point to a 20 point decline in categories that make up about a half of J.P. Morgan's G-SIB score.

Second, repo books and derivatives activity are down since the first quarter, and that should also help scores fall some. Third, and in contrast to the first two, FX swap books are up a lot since the first quarter, which has the potential to mitigate or even offset the decline in scores coming from the above sources.

How these forces will shape J.P Morgan's second quarter scores is uncertain, but there is a chance that the expansion of FX swap books during the quarter pushed its score into the 4.5% capital surcharge bucket. That would mean much less FX swap intermediation at J.P. Morgan going into year-end and a year-end turn much worse than what's currently being priced by the market – unless U.S. banks with lower G-SIB scores or foreign banks pick up the slack.

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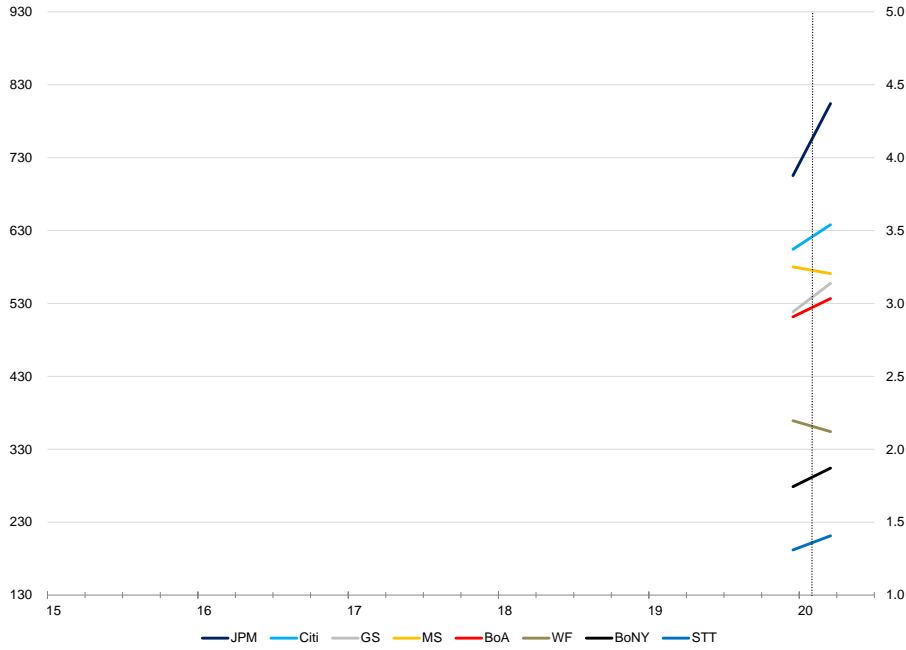
Zoltan Pozsar

212 538 3779

zoltan.pozsar@credit-suisse.com

[Quarterly]: G-SIB Scores of U.S. Financial Holding Companies (1)

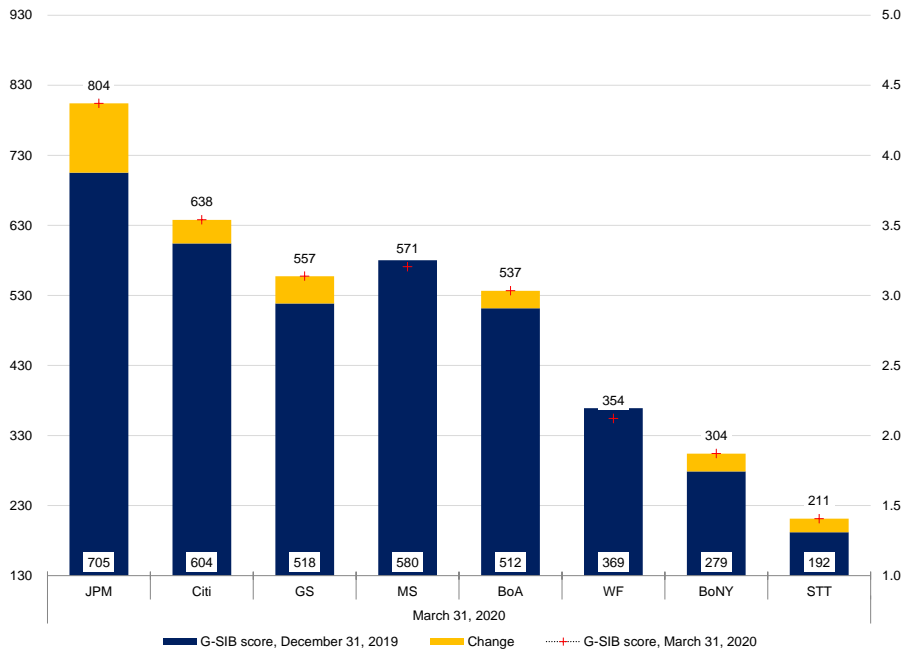
G-SIB score [LHS] and corresponding capital surcharge buckets [RHS]



Source: Y-15, Credit Suisse

[Quarterly]: G-SIB Scores of U.S. Financial Holding Companies (2)

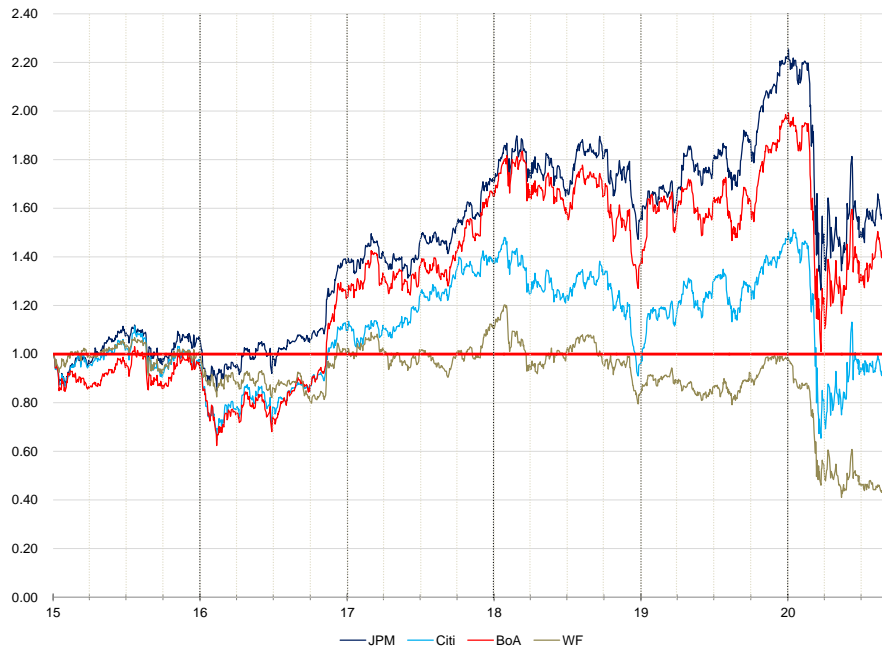
G-SIB score [LHS] and corresponding capital surcharge buckets [RHS]



Source: Y-15, Credit Suisse

[Daily]: The Stock Price of Bank “Heavy” U.S. G-SIBs

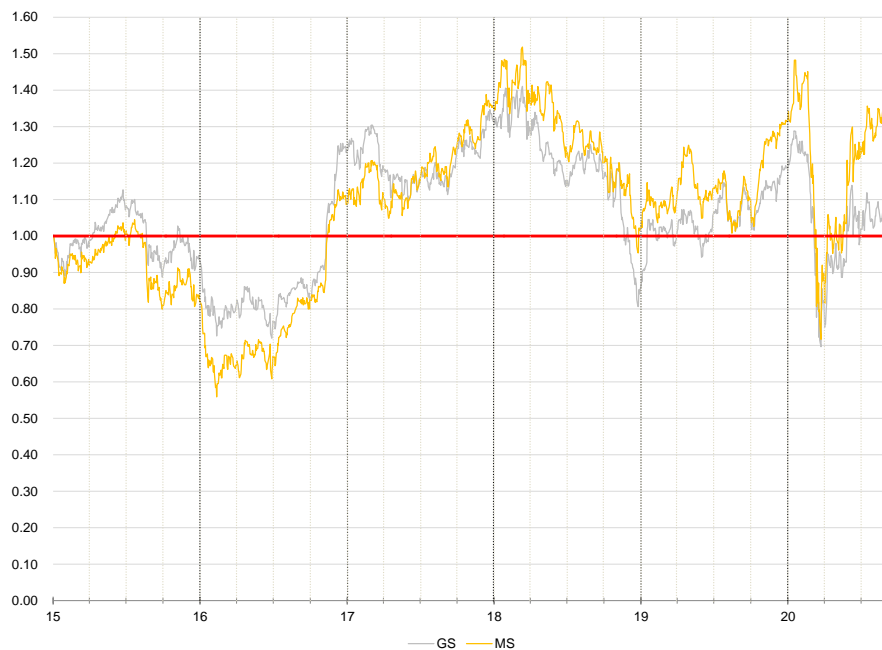
index, base = January 1st, 2015



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

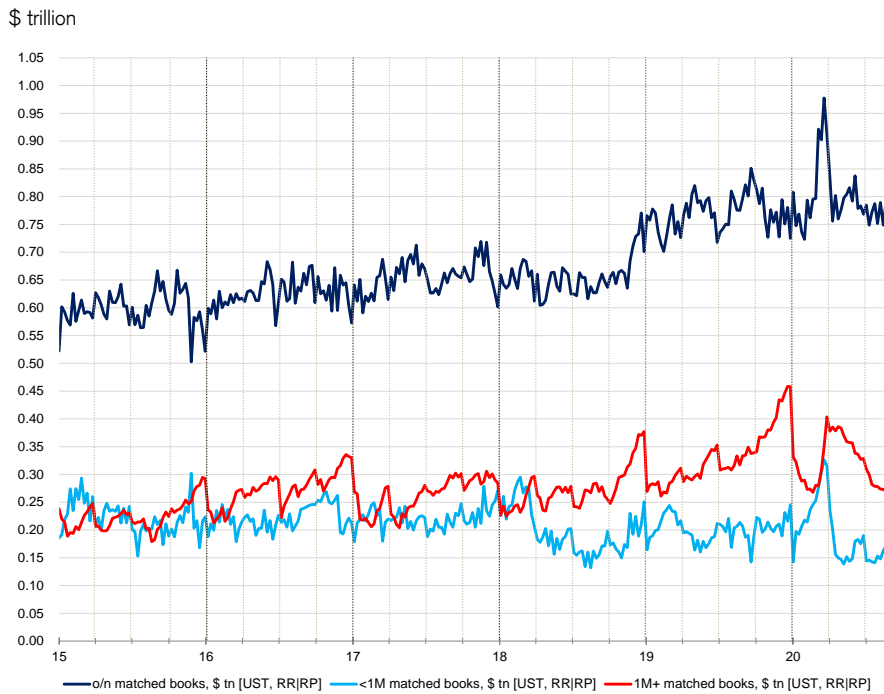
[Daily]: The Stock Price of Dealer “Heavy” U.S. G-SIBs

index, base = January 1st, 2015



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

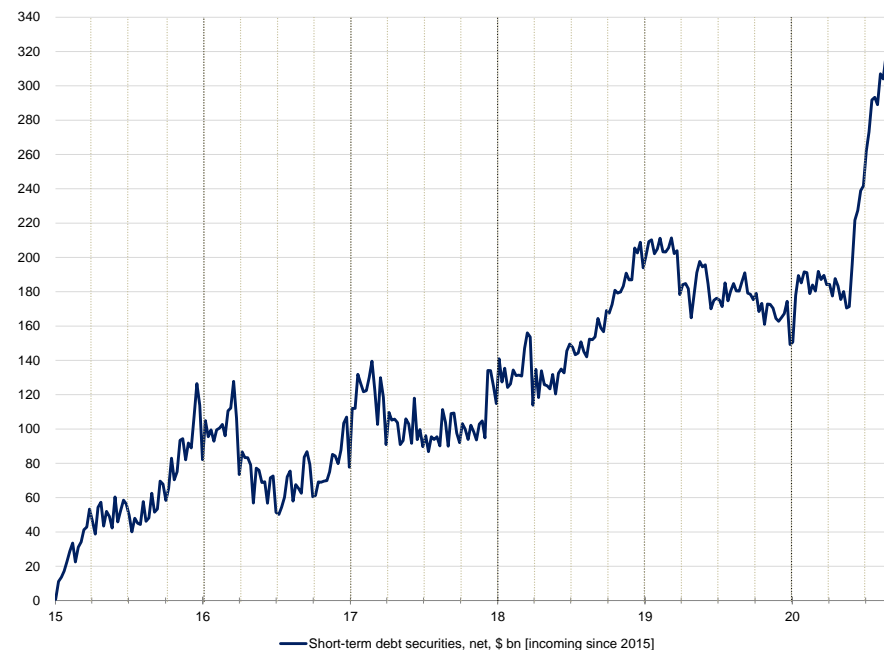
[Weekly]: Smaller Repo Books to Lower Wholesale Funding Scores



Source: FRBNY, Credit Suisse

[Weekly]: Bigger FX Swap Books to Increase Cross-Jurisdictional Scores

\$ billion, cumulative net purchases of Japanese government bills by foreigners since 2015¹

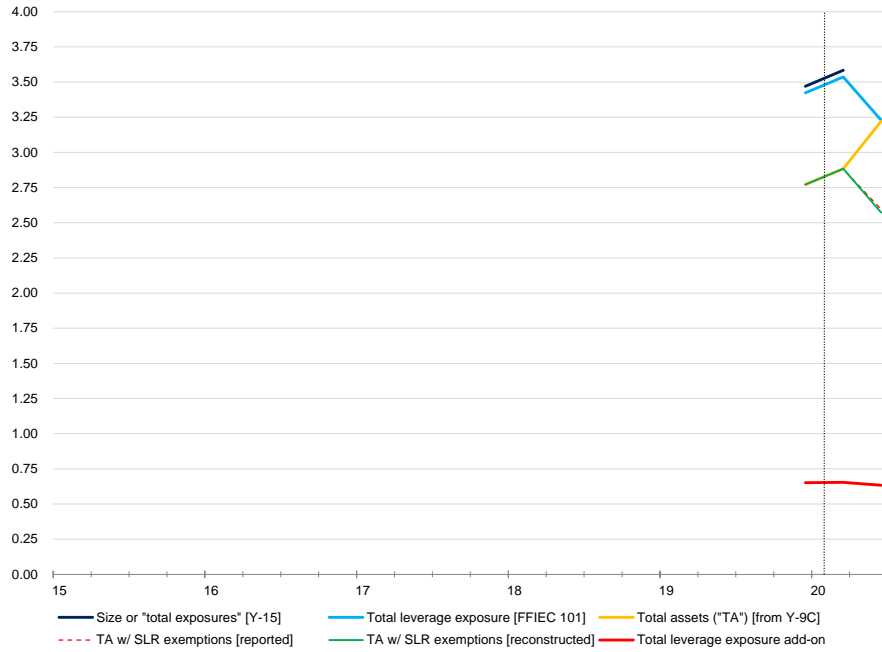


Source: Ministry of Finance, Credit Suisse

¹ Proxy for foreign non-banks' lending of U.S. dollars via FX swaps versus the Japanese yen.

[Quarterly]: The Exemption of Reserves and Treasuries from the SLR Will Lower Size Scores (1)

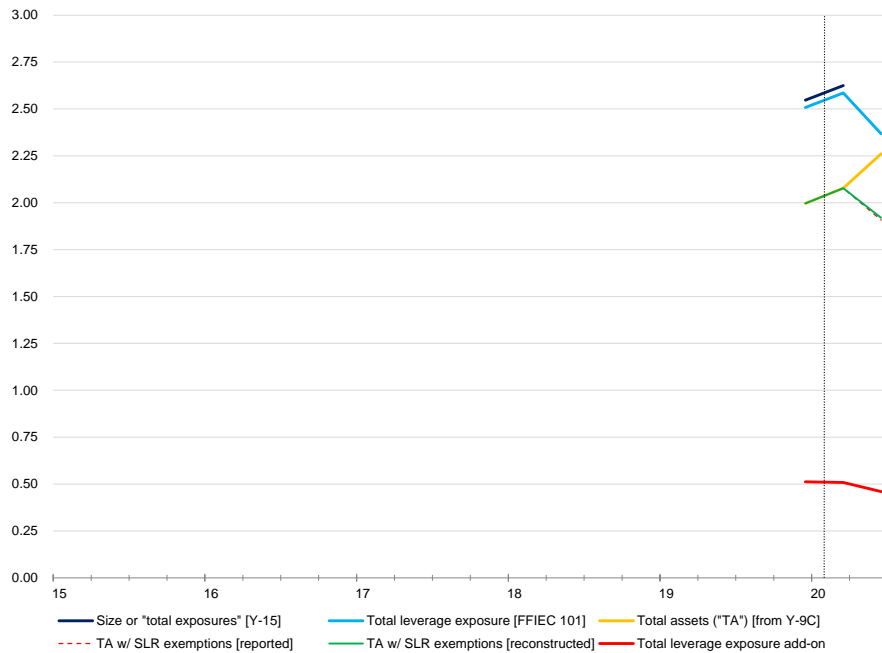
\$ trillion, numbers for J.P. Morgan Chase & Co.



Source: Y-15, Y-9C, Credit Suisse

[Quarterly]: The Exemption of Reserves and Treasuries from the SLR Will Lower Size Scores (2)

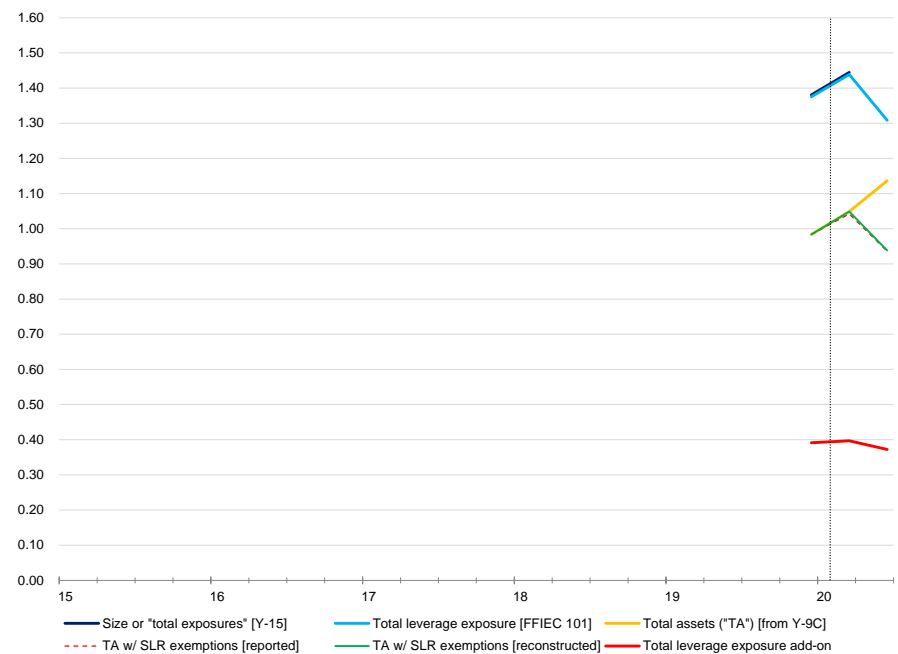
\$ trillion, numbers for Citigroup Inc.



Source: Y-15, Y-9C, Credit Suisse

[Quarterly]: The Exemption of Reserves and Treasuries from the SLR Will Lower Size Scores (3)

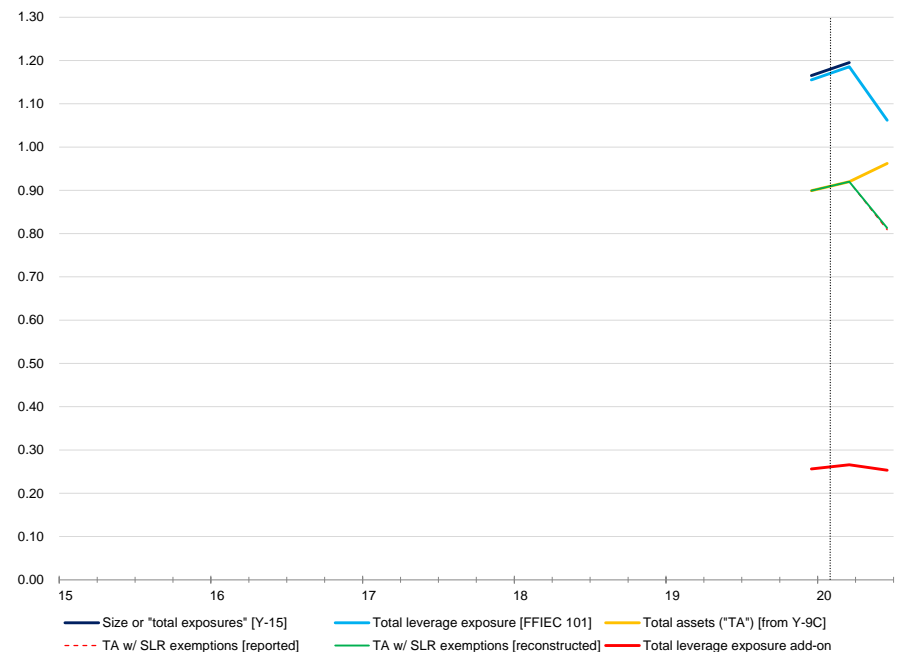
\$ trillion, numbers for The Goldman Sachs Group, Inc.



Source: Y-15, Y-9C, Credit Suisse

[Quarterly]: The Exemption of Reserves and Treasuries from the SLR Will Lower Size Scores (4)

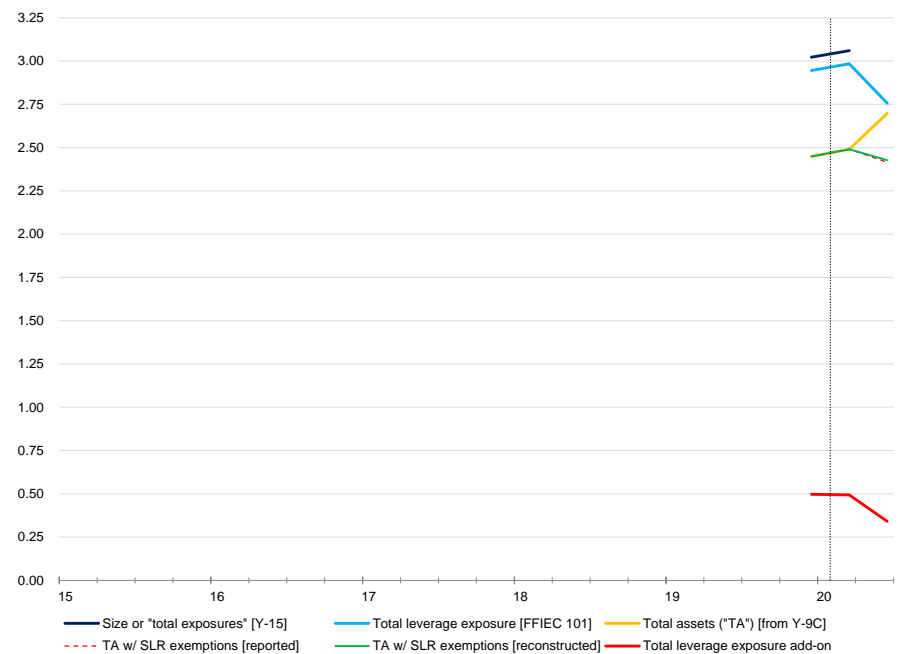
\$ trillion, numbers for Morgan Stanley



Source: Y-15, Y-9C, Credit Suisse

[Quarterly]: The Exemption of Reserves and Treasuries from the SLR Will Lower Size Scores (5)

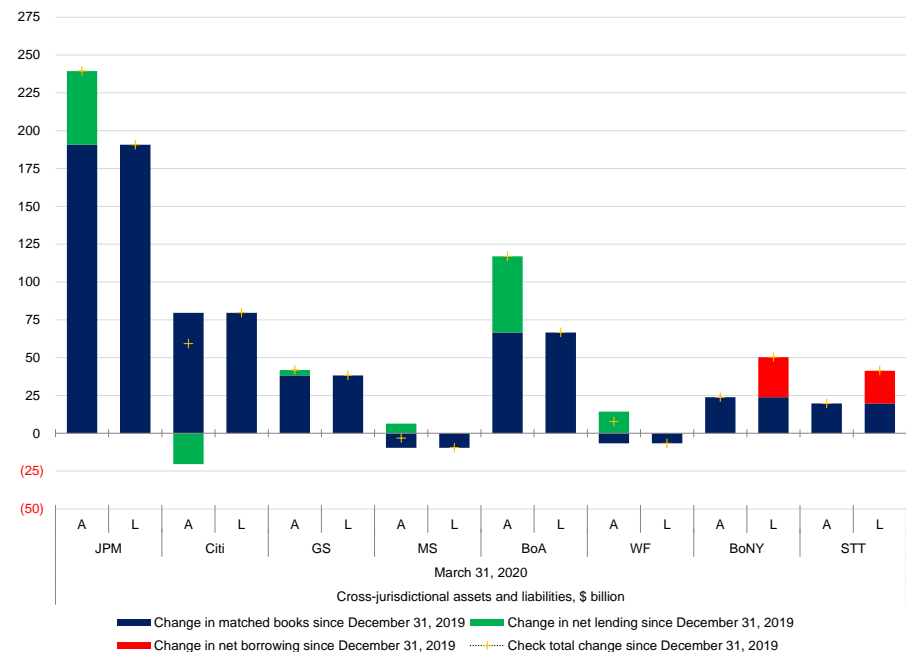
\$ trillion, numbers for Bank of America Corporation



Source: Y-15, Y-9C, Credit Suisse

[Daily]: Change in the Size of Cross Jurisdictional "Matched Books" [proxy]²

\$ billion

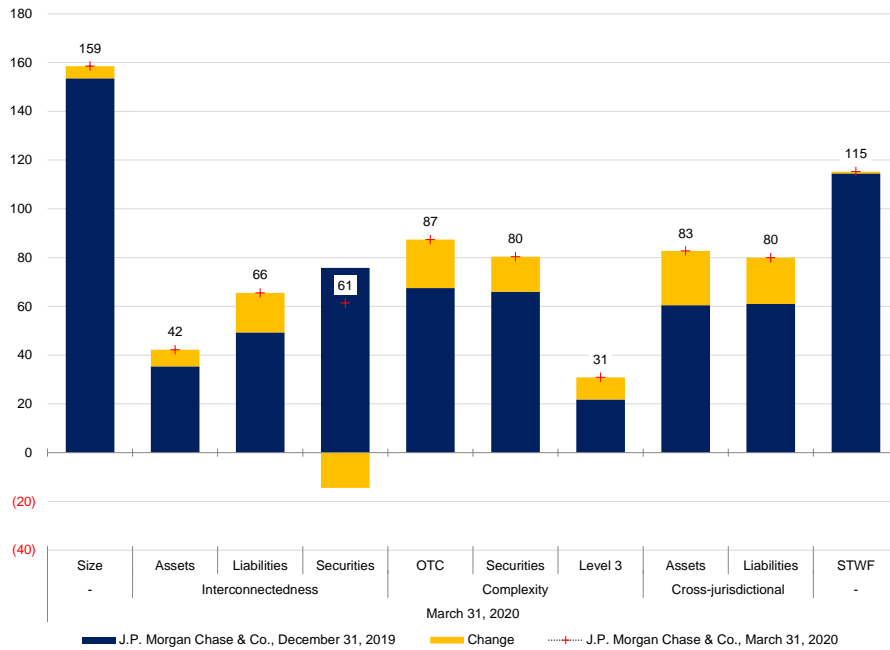


Source: Y-15, Credit Suisse

² Proxy for changes in the size of matched FX swap books (blue bars) and banks' positions either as net lenders (green bars) or net borrowers (red bars) in the FX swap market. To repeat, this is a proxy.

[Quarterly]: G-SIB Score Components (1)

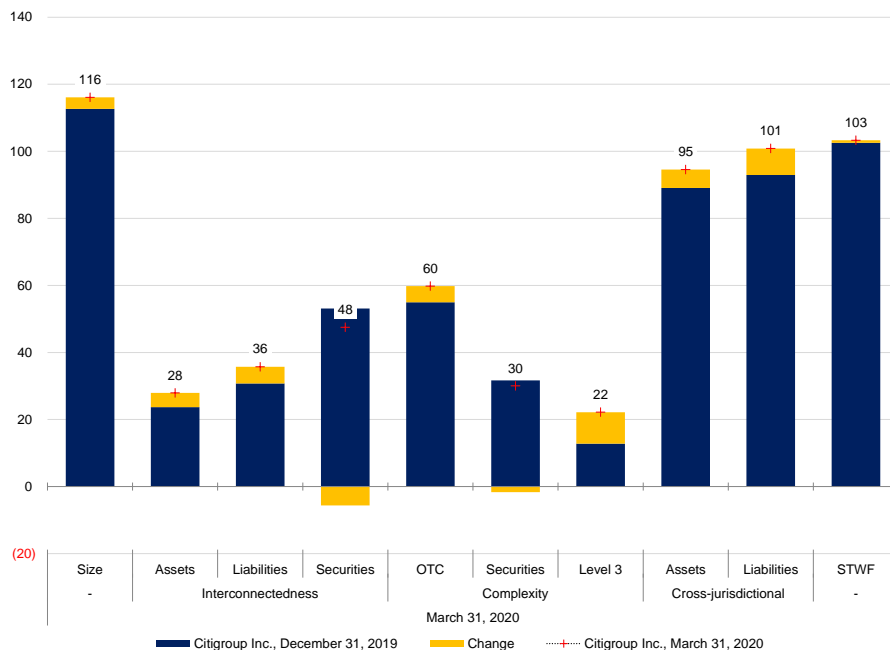
scores for J.P. Morgan Chase & Co.



Source: Y-15, Credit Suisse

[Quarterly]: G-SIB Score Components (2)

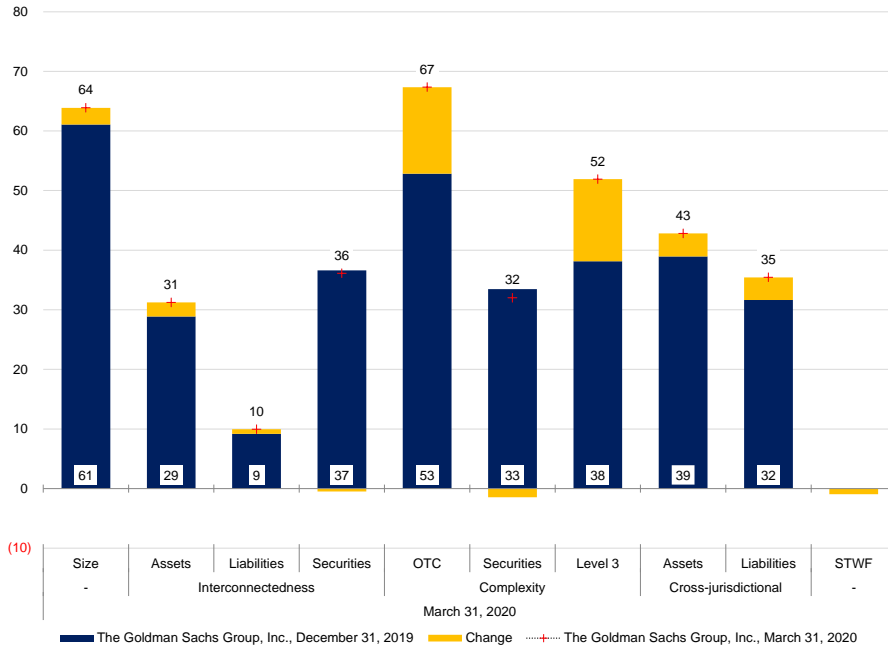
scores for Citigroup Inc.



Source: Y-15, Credit Suisse

[Quarterly]: G-SIB Score Components (3)

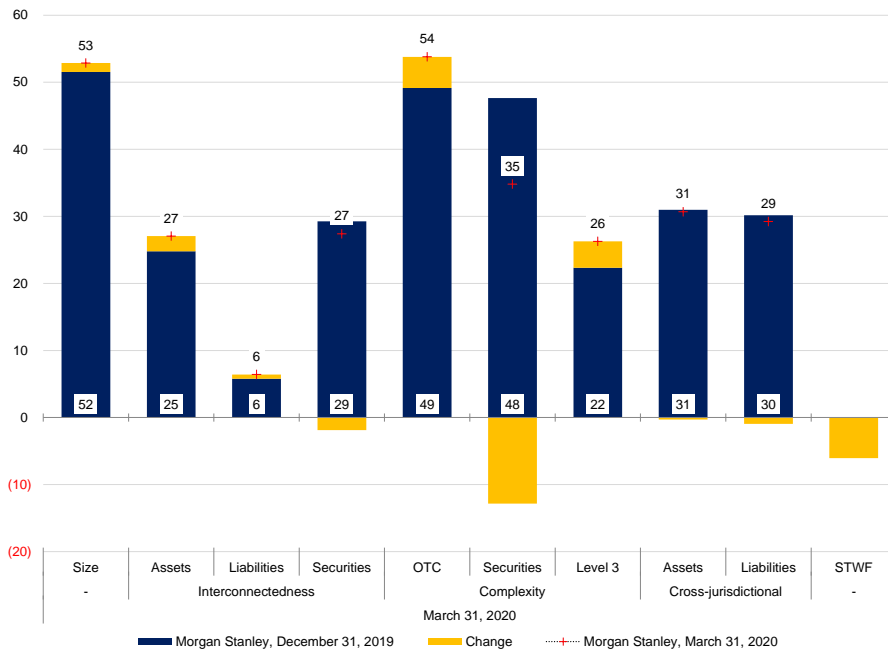
scores for The Goldman Sachs Group, Inc.



Source: Y-15, Credit Suisse

[Quarterly]: G-SIB Score Components (4)

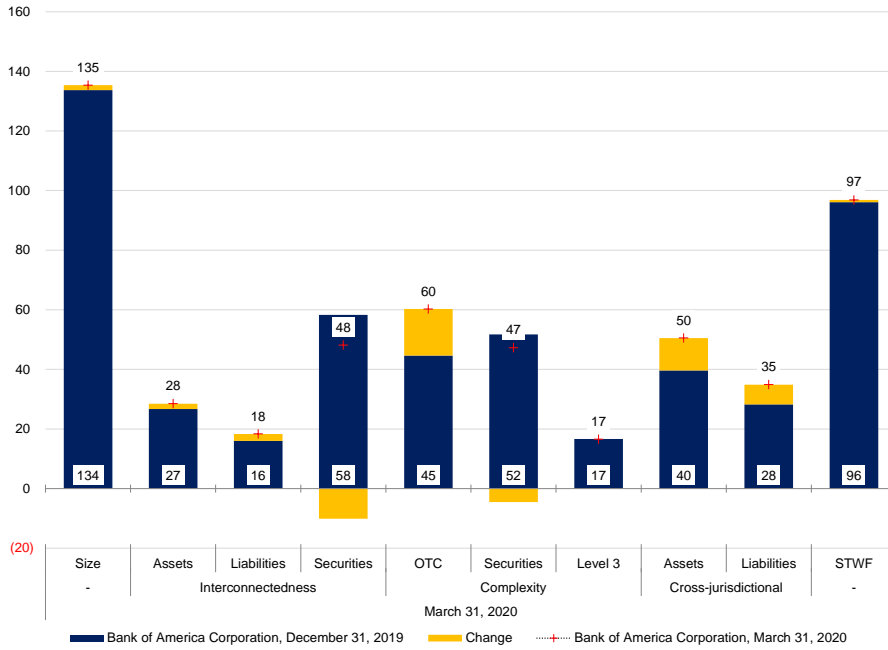
scores for Morgan Stanley



Source: Y-15, Credit Suisse

[Quarterly]: G-SIB Score Components (5)

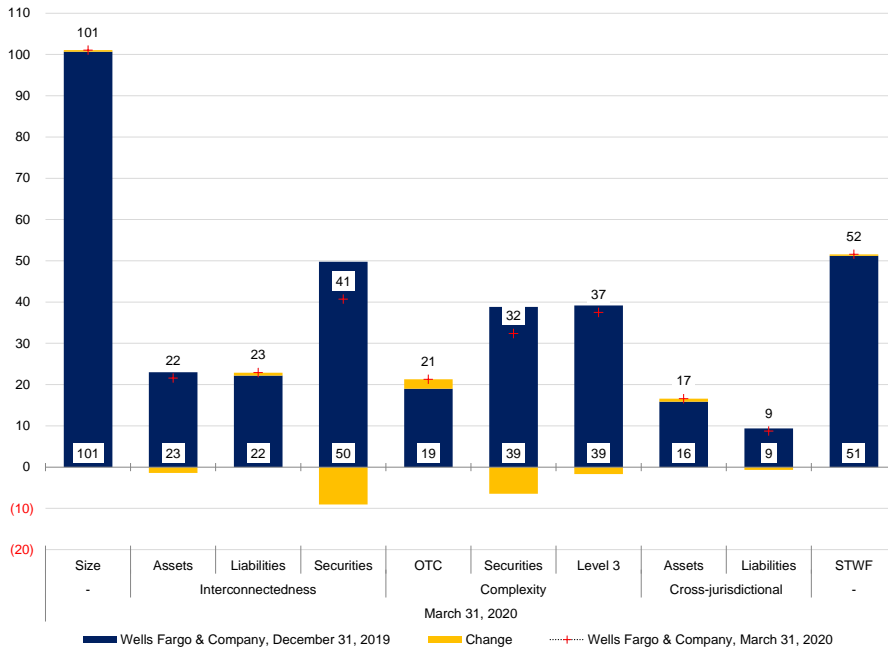
scores for Bank of America Corporation



Source: Y-15, Credit Suisse

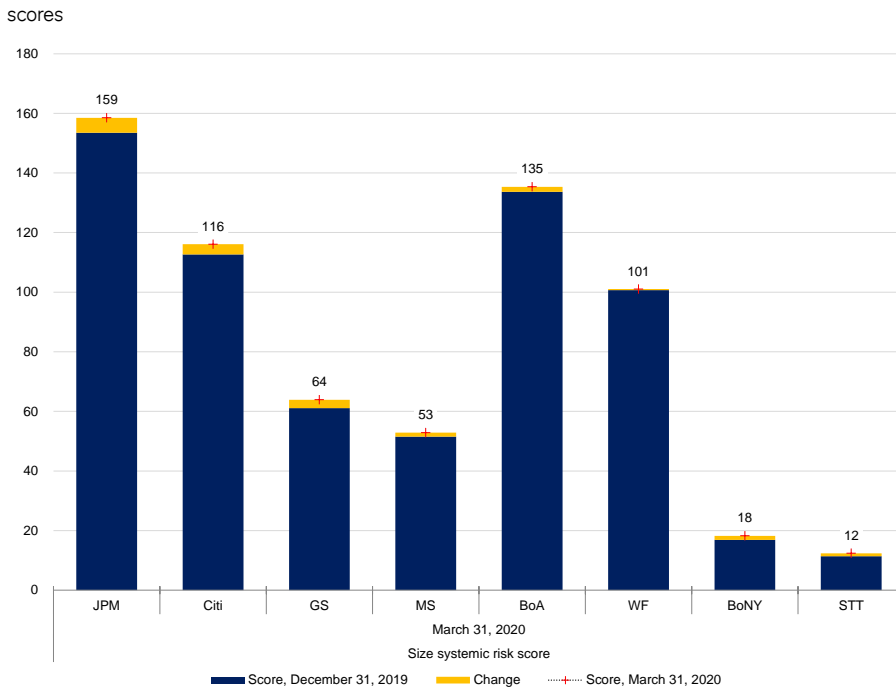
[Quarterly]: G-SIB Score Components (6)

scores for Wells Fargo & Company



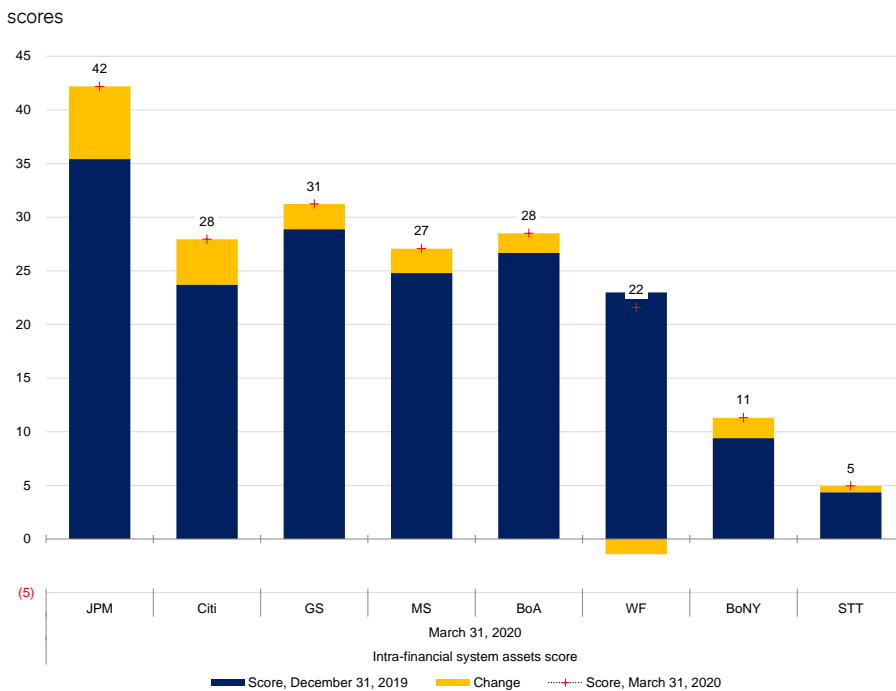
Source: Y-15, Credit Suisse

[Quarterly]: Size Systemic Risk Scores



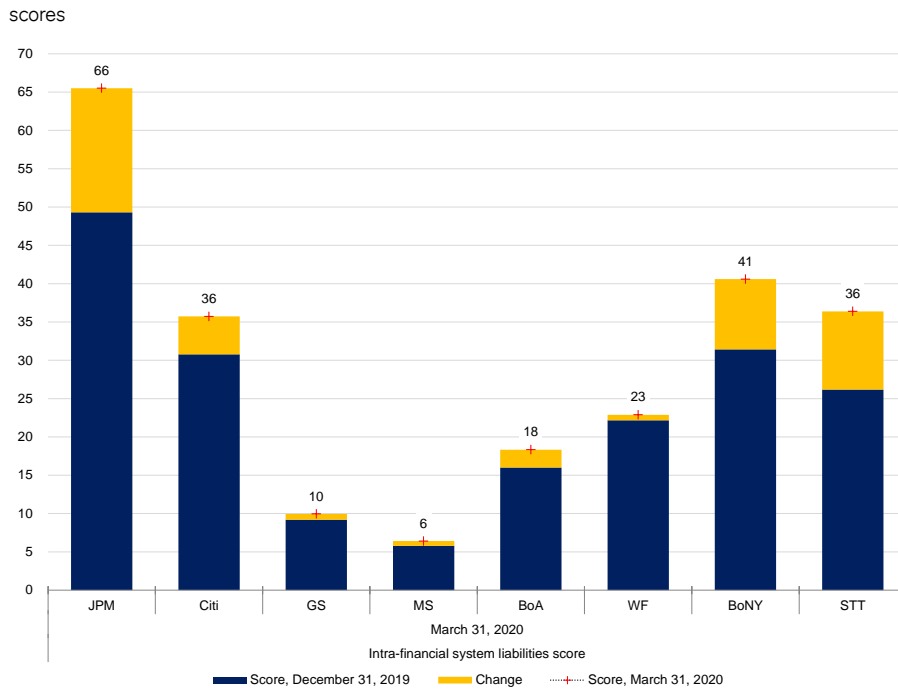
Source: Y-15, Credit Suisse

[Quarterly]: Intra-Financial System Asset Scores



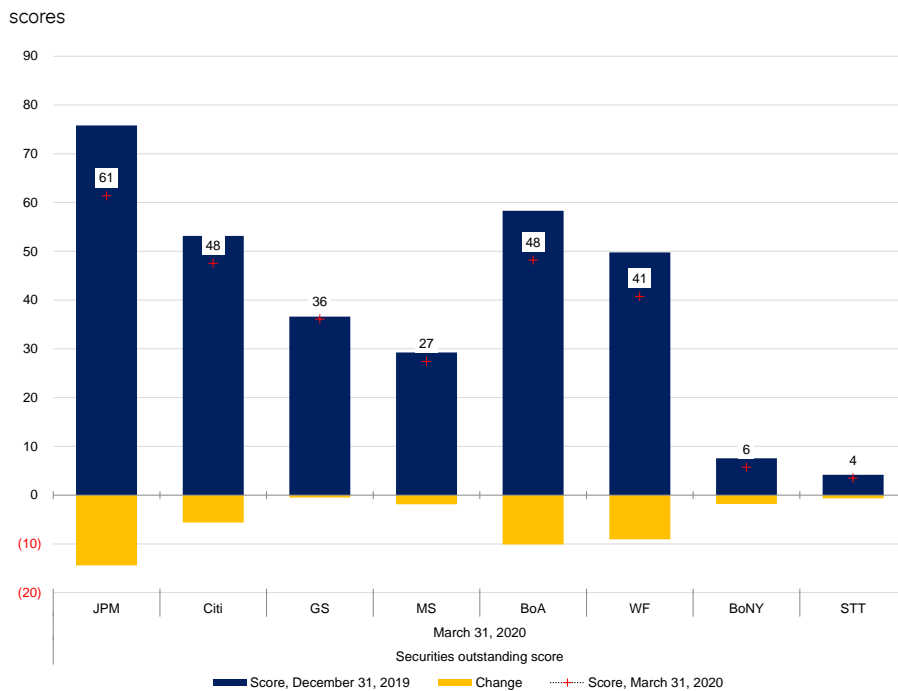
Source: Y-15, Credit Suisse

[Quarterly]: Intra-Financial System Liabilities Scores



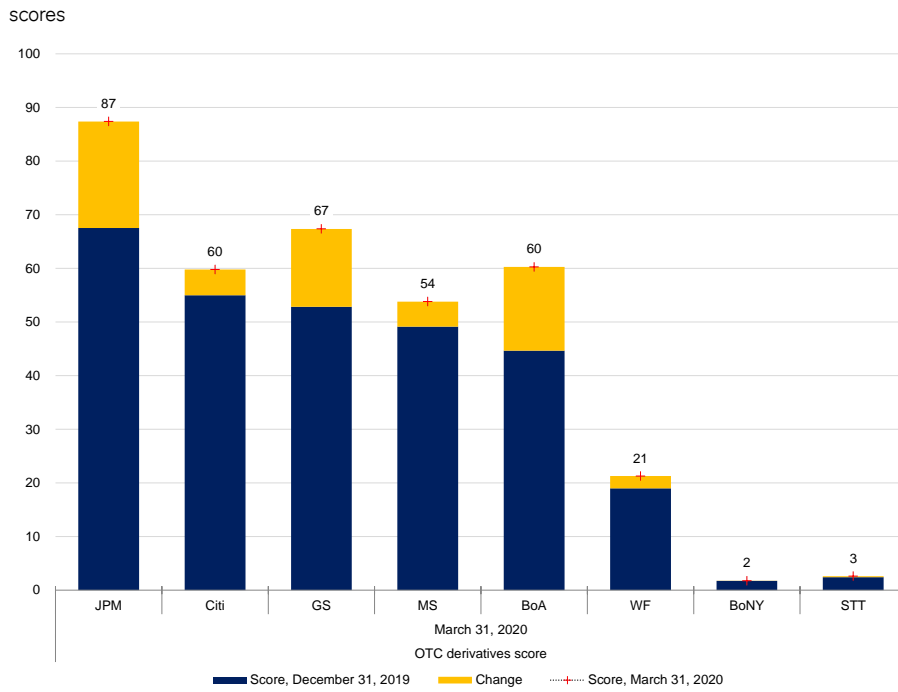
Source: Y-15, Credit Suisse

[Quarterly]: Securities Outstanding Scores



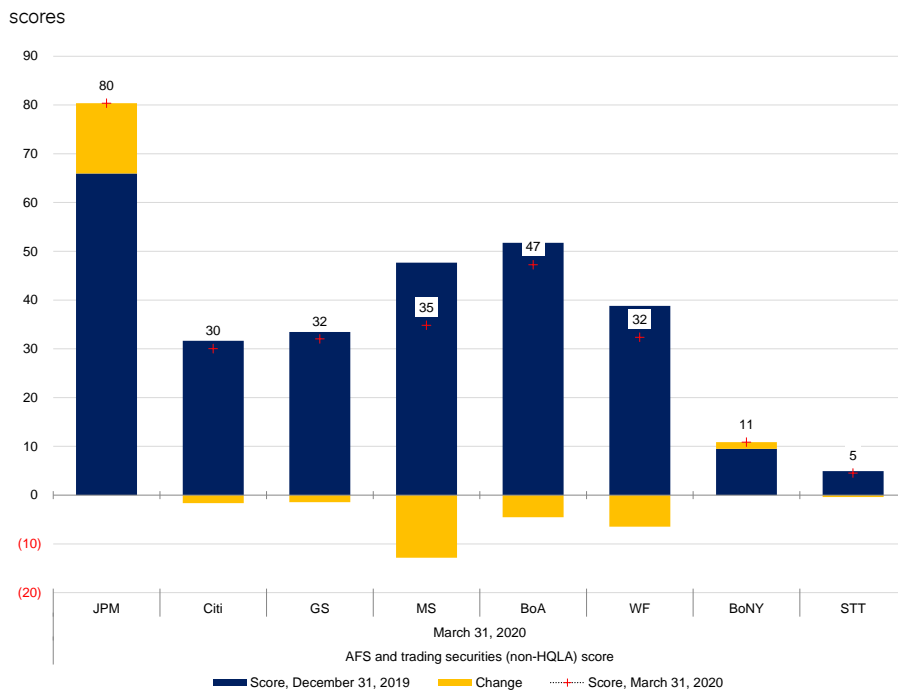
Source: Y-15, Credit Suisse

[Quarterly]: OTC Derivatives Scores



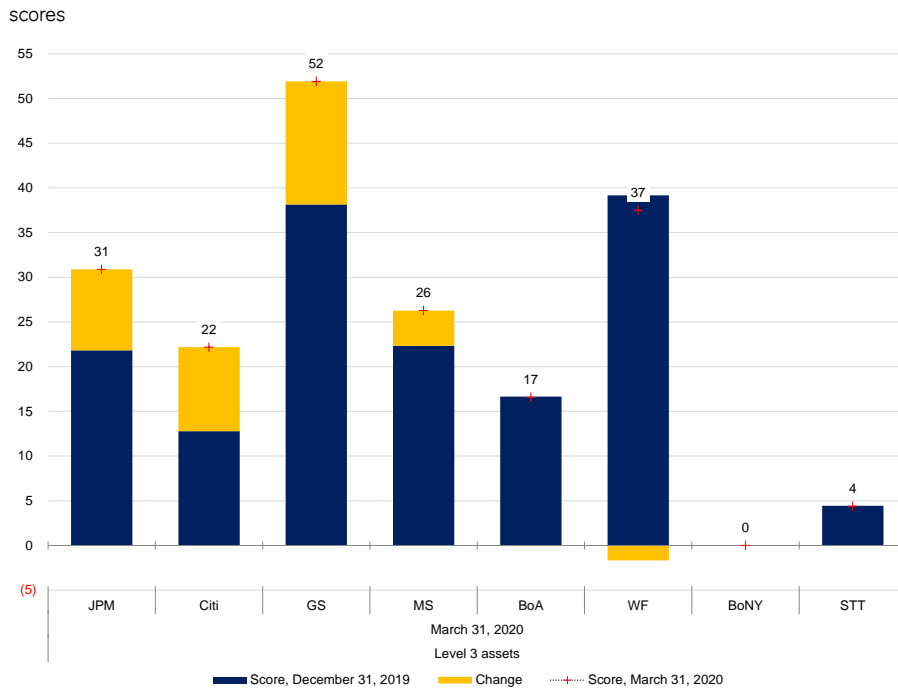
Source: Y-15, Credit Suisse

[Quarterly]: AFS and Trading Securities [non-HQLA] Scores



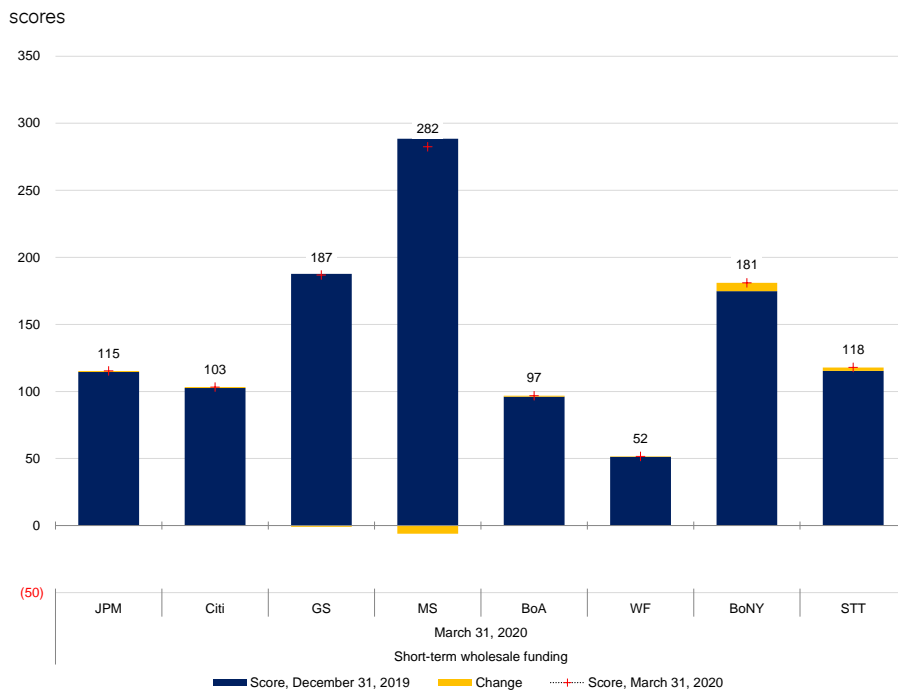
Source: Y-15, Credit Suisse

[Quarterly]: Level 3 Assets Scores



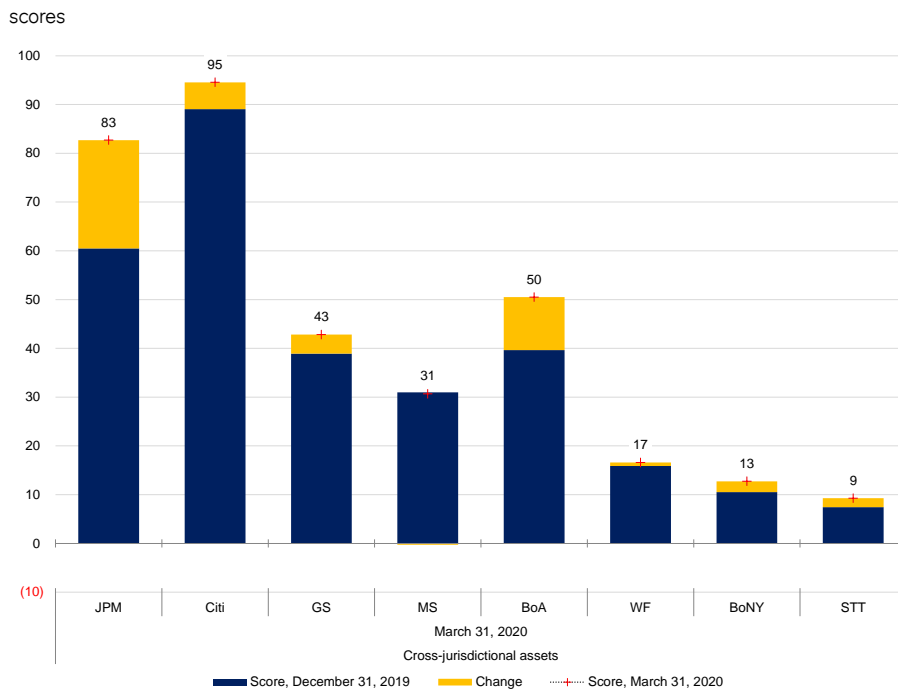
Source: Y-15, Credit Suisse

[Quarterly]: Short-Term Wholesale Funding Scores



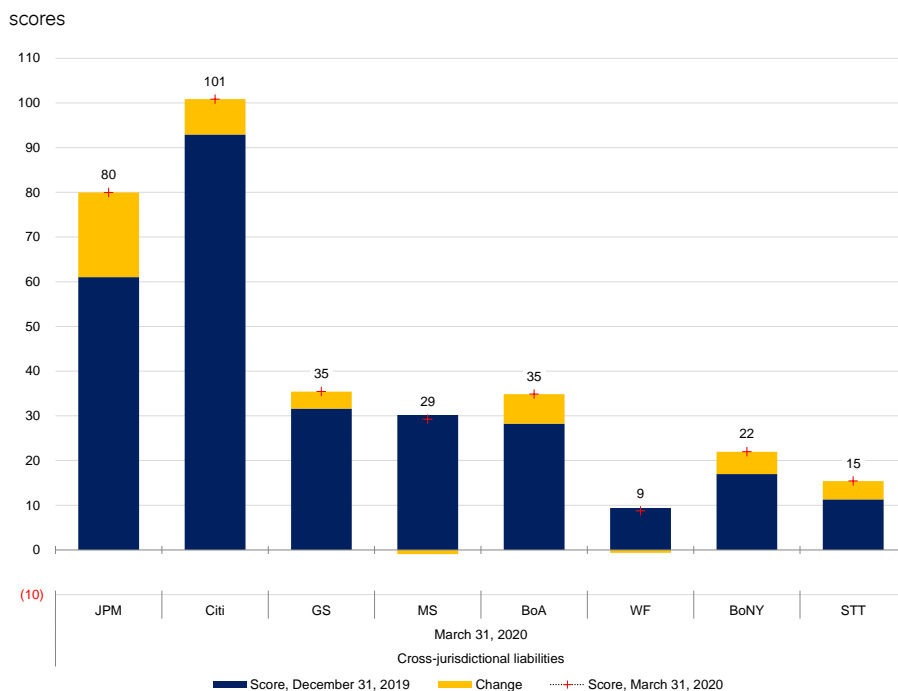
Source: Y-15, Credit Suisse

[Quarterly]: Cross-Jurisdictional Assets Scores



Source: Y-15, Credit Suisse

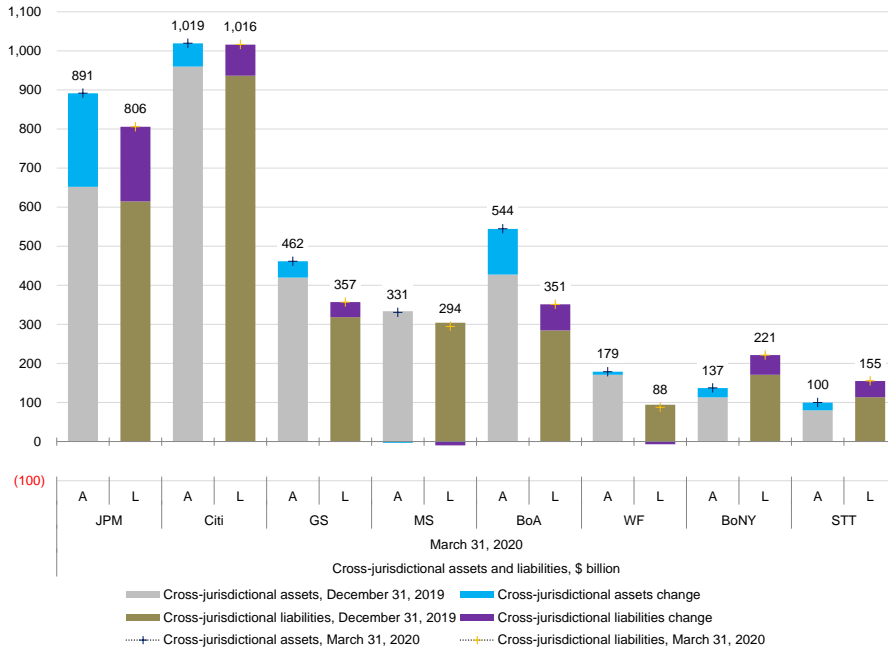
[Quarterly]: Cross-Jurisdictional Liabilities Scores



Source: Y-15, Credit Suisse

[Quarterly]: Cross-Jurisdictional Assets and Liabilities (1)

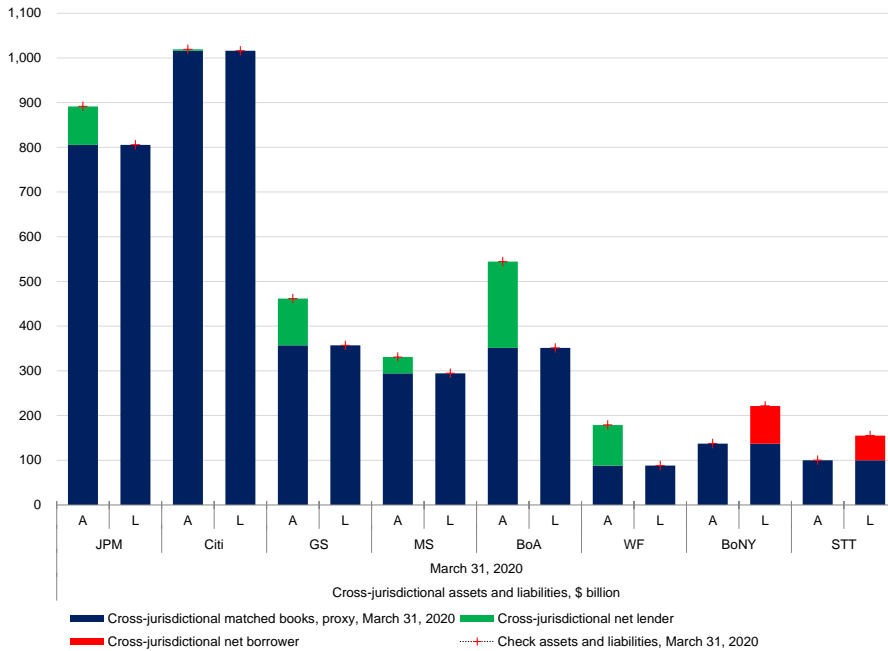
\$ billion, proxy for FX swap books



Source: Y-15, Credit Suisse

[Quarterly]: Cross-Jurisdictional Assets and Liabilities (2)

\$ billion, proxy for FX swap books



Source: Y-15, Credit Suisse

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