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J.P. Morgan's plan to return $30 billion of CET1 capital has lots of moving parts.

First, let's review what happened to J.P. Morgan's balance sheet during 2020: total assets grew by close to $700 billion from the prior year, and most of this growth occurred in J.P. Morgan's HQLA portfolio; the non-HQLA portion of J.P. Morgan's balance sheet grew by only $100 billion. In the bank subsidiary, reserves at the Fed rose by $250 billion, AFS and HTM securities by $200 billion. Securities in the trading book rose by $100 billion, half of which was in the credit portfolio of the bank, and the other in the Treasuries and MBS portfolio of the broker-dealer. The bank's (net) repo book grew by about $50 billion. The funding of this growth came from half retail and half wholesale deposits.

Second, what enabled this $600 billion growth in J.P. Morgan's HQLA portfolio was the exemption of reserves and Treasuries from the calculation of the SLR at the holding company, and capital growth at the bank opco. level (see here).

Third, because this $600 billion growth in the HQLA portfolio occurred at the bank opco., the bank's LCR is currently at 160%, or 50 percentage points above the Fed's minimum, and according to the bank's earnings presentation, the U.S. dollar volume of excess HQLA at the bank opco. is about $500 billion.

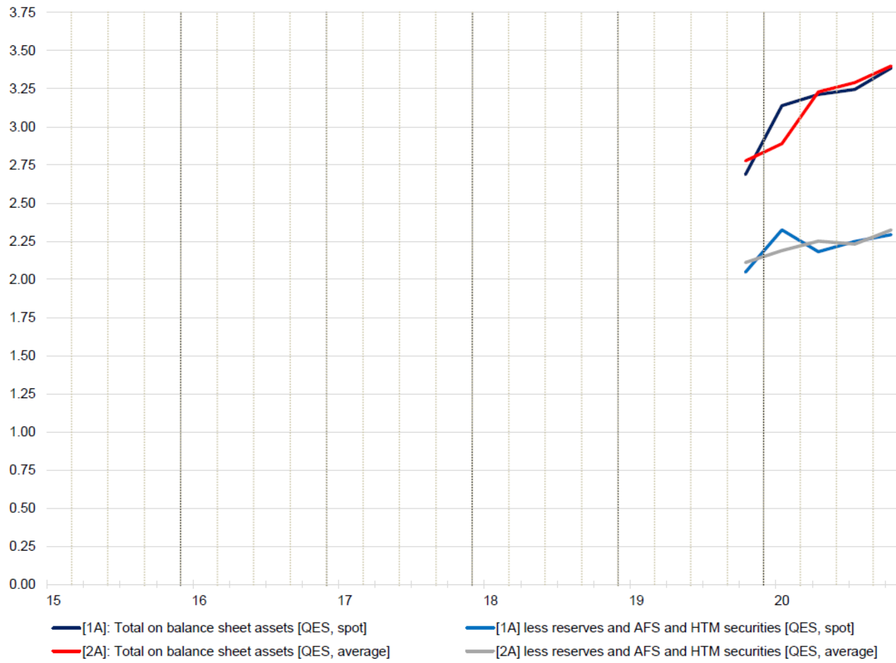
What's special about the numbers $30 billion and $500 billion is that at the bank opco. level, where the Fed has set the minimum SLR requirement at 6%, a bank needs at a minimum $30 billion of capital to carry $500 billion of assets.

In essence, J.P. Morgan has $30 billion of excess CET1 capital to return (see our Dispatch from earlier today) relative to its risk-weighted assets, but has a $30 billion shortage of capital relative to its non-risk weighted assets – hence J.P. Morgan's focus on the need to permanently exempt reserves and Treasuries from the SLR. If the temporary exemption expires on March 31st, J.P. Morgan's SLR at the holding company level would fall from 6.9% to 5.8%, and if it went ahead with the $30 billion of buybacks its SLR would fall to 5.1% – barely above the 5% minimum. The SLR would stand in the way of buybacks. The buyback would do even more damage to the SLR at the bank opco. level, where the SLR would fall to 5.4%, or 60 bps below the regulatory minimum.

Because J.P. Morgan has more capital at the bank opco. than at the holdco, it can't return capital to shareholders without also reducing capital at the bank: even if the exemptions are made permanent at the holding company level, unless they get automatically extended to the bank operating company level, J.P. Morgan would still have to shed some reserves, Treasuries and deposits at the bank, or issue debt or preferred stock at the holding company level to replenish the capital base of the bank if the $30 billion of buybacks go ahead.

[Quarterly]: J.P. Morgan's Total Assets and Total Assets Less HQLA

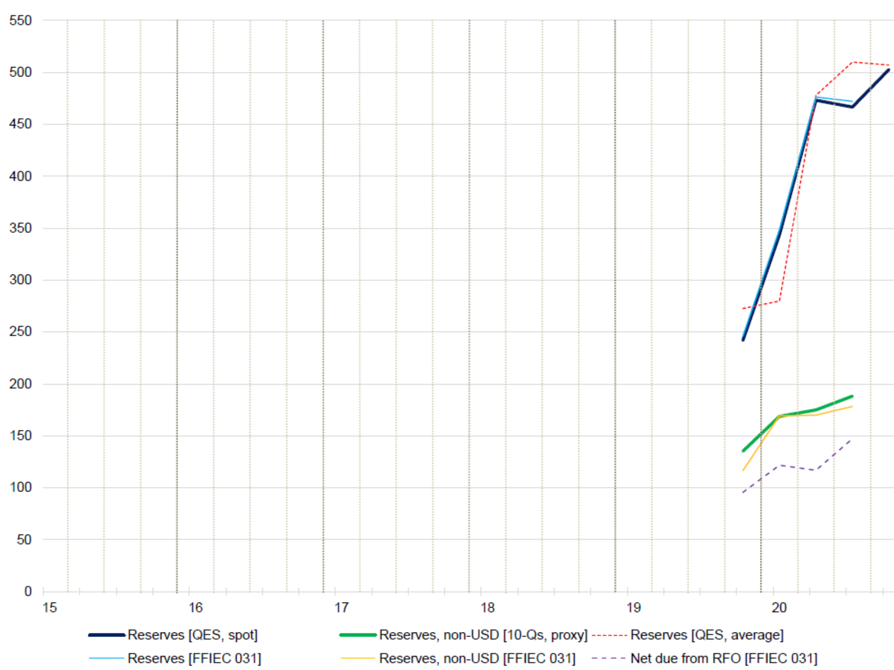
$ trillion



Source: Quarterly earnings supplements, Credit Suisse

[Quarterly]: J.P. Morgan's Reserve Balances at Central Banks

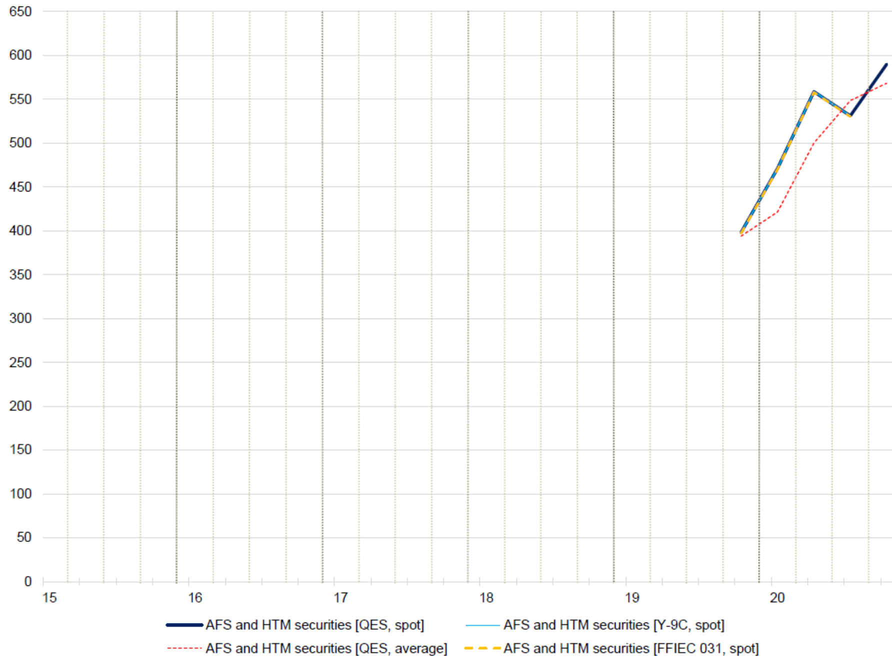
$ billion



Source: Quarterly earnings supplements, 10-Qs, FFIEC 031, Credit Suisse

[Quarterly]: J.P. Morgan's Securities Portfolio

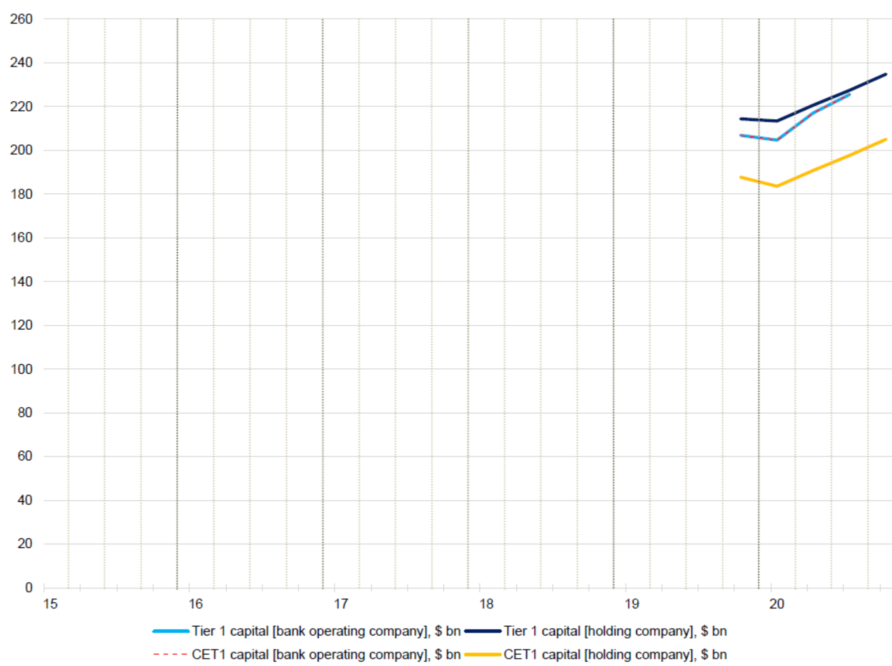
$ billion, reflects mostly U.S. Treasuries and agency MBS, and about $140 billion of credit securities



Source: Quarterly earnings supplements, FFIEC 031, Y-9C, Credit Suisse

[Quarterly]: J.P. Morgan's Capital Base at the Bank and Holdco. Levels

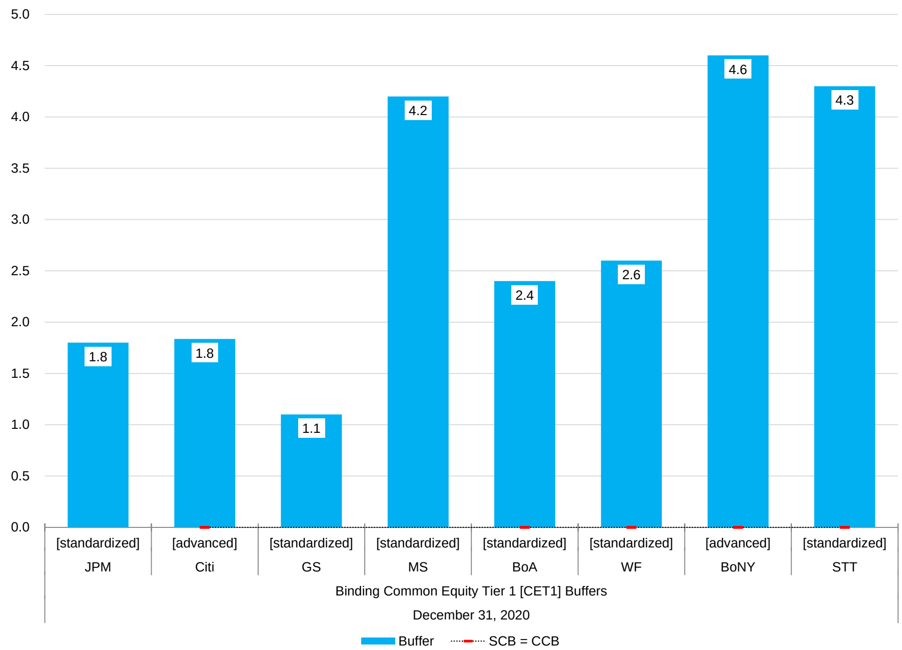
$ billion



Source: Quarterly earnings supplements, FFIEC 031, Y-9C, Credit Suisse

[Quarterly]: J.P. Morgan's CET1 Buffer Allows for $30 Billion of Buybacks…

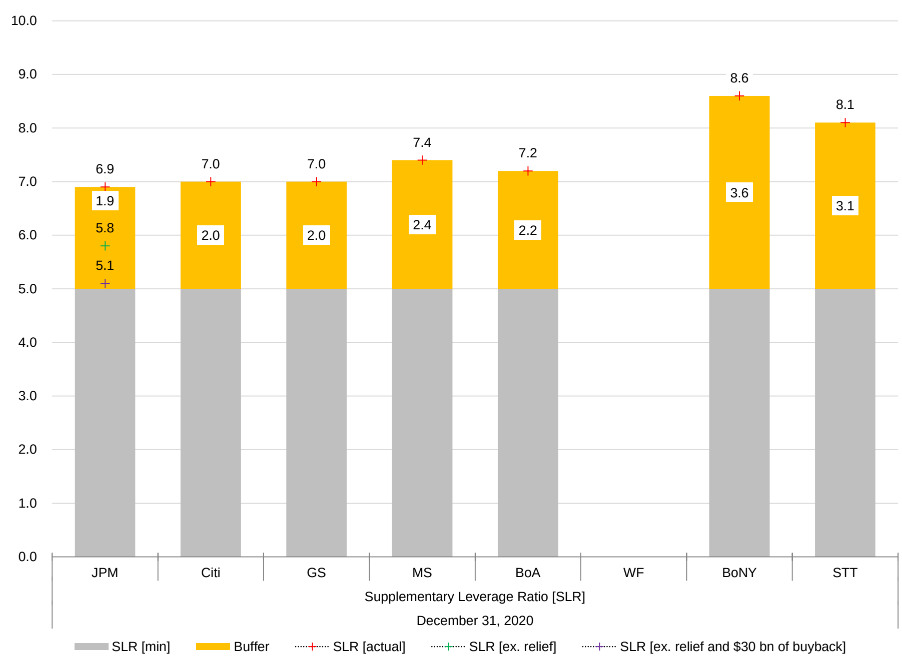
percent



Source: Quarterly earnings supplements, Credit Suisse

[Quarterly]: …But Its SLR Buffer Doesn't Allow for $30 Billion of Buybacks

percent, holding company level SLR ratios and minimums



Source: Quarterly earnings supplements, Credit Suisse

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