

Global Money Dispatch

In the January 22nd [issue](#) of Global Money Dispatch, we noted that unless reserves and U.S. Treasury securities get a permanent exemption from the SLR at the bank operating subsidiary level, J.P. Morgan and some other G-SIBs would have to increase capital at the bank opco by issuing [debt](#) at the holdco level.

Banks did indeed issue debt after last week's earnings announcements, but in amounts far greater than what was anticipated by the debt market or by us. What did we miss? [TLAC](#), or total loss-absorbing capacity requirements...

To understand why banks have been issuing debt since Thursday, we need to consider three ratios: the holding company SLR, which is set at a minimum of 5%; the bank operating subsidiary SLR, which is set at a higher minimum of 6%; and the holding company TLAC minimum, which is set at an even higher 9.5%.

The SLR is calculated as the ratio of Tier 1 capital and total leverage exposure (or TLE, where total leverage exposure is average on balance sheet assets plus derivatives and repo-style transactions), and TLAC is calculated as the [ratio of Tier 1 capital plus term \(longer than one year\) unsecured debt and TLE](#).

Our Dispatch from March 16th [noted](#) that ending the exemption of reserves and Treasury securities won't make the holding company SLRs binding. In fact, J.P. Morgan and Bank of America reported that their holding company SLRs would be 5.5% and 6.1% without the exemption, well above the 5% minimum.

The bank subsidiary SLRs are a different matter: as our second chart shows, J.P. Morgan and Bank of America ended last year with only a sliver of a buffer, which translated into a capacity to add about \$150 and \$100 billion of assets during the first quarter, respectively. But based on first quarter earnings reports, these banks added around \$200 and \$150 billion of assets at the bank level, respectively, which means their SLRs likely reached the regulatory minimum.

To fix the banks' SLR, the holding company had to issue debt, *as expected*, but the issuance size – \$13 and \$15 billion, respectively – was too big for that: at the bank level, that much capital would add over \$200 billion of capacity, which was more than the \$50 billion or so needed to re-up the banks' buffers.

The balance was needed for TLAC buffers. When SLR exemptions ended, holdco level TLE at the two banks exploded by at least \$900 and \$400 billion, respectively, and this "shock" eroded the two banks' TLAC buffers considerably, which made the larger-than-expected issuance necessary. Chart four shows that the post-expiry TLE "shock" for J.P. Morgan and Bank of America was bigger than for all others, which explains why these two banks issued the most.

In the end, low holdco SLRs weren't binding, but higher TLAC minimums were.

Important Information

THIS IS NOT RESEARCH. PLEASE REFER TO THE IMPORTANT DISCLOSURES AND CONTACT YOUR CREDIT SUISSE REPRESENTATIVE FOR MORE DETAILS. This report represents the views of the Investment Strategy Department of Credit Suisse and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not a product of the Credit Suisse Research Department and the view of the Investment Strategy Department may differ materially from the views of the Credit Suisse Research Department and other divisions at Credit Suisse, even if it references published research recommendations. Credit Suisse has a number of policies in place to promote the independence of Credit Suisse's Research Departments from Credit Suisse's Investment Strategy-and other departments and to manage conflicts of interest, including policies relating to dealing ahead of the dissemination of investment research. These policies do not apply to the views of Investment Strategists contained in this report.

CONTRIBUTORS

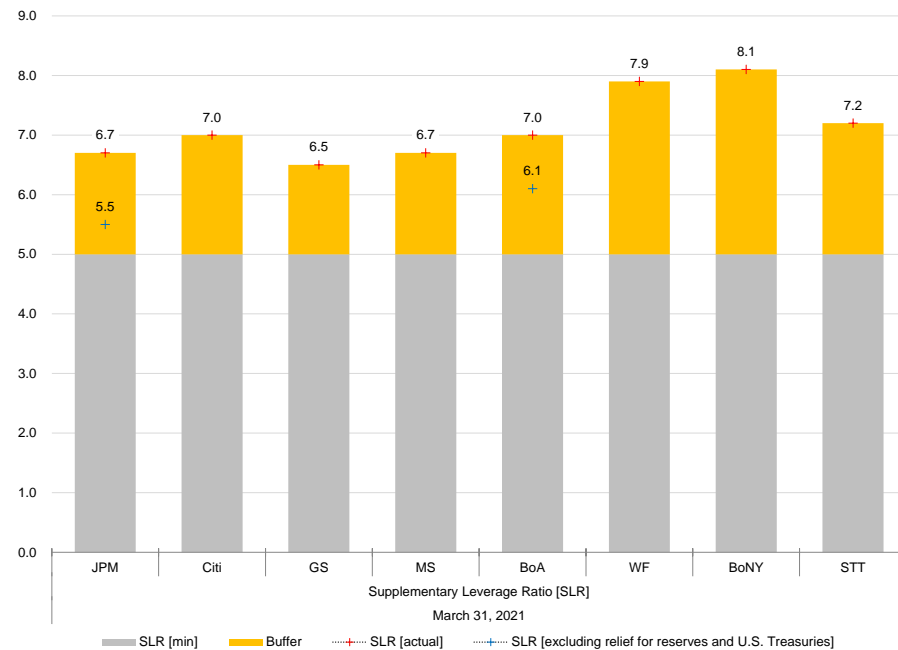
Zoltan Pozsar

212 538 3779

zoltan.pozsar@credit-suisse.com

[Quarterly]: SLR at the Holding Company Level

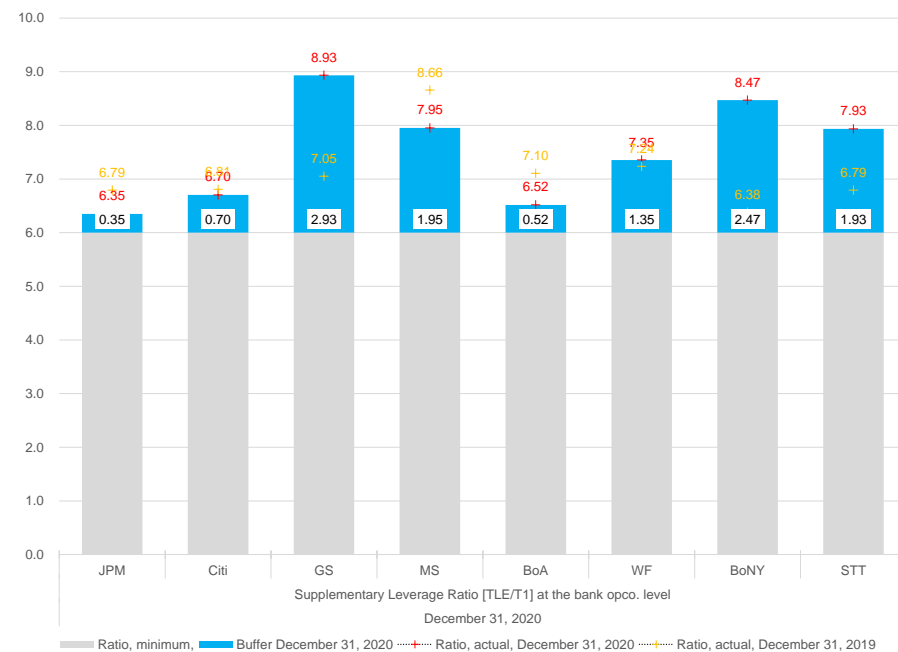
percent, as of the first quarter of 2021, minimum 5%



Source: Quarterly earnings supplements, Credit Suisse

[Quarterly]: SLR at the Bank Operating Subsidiary Level

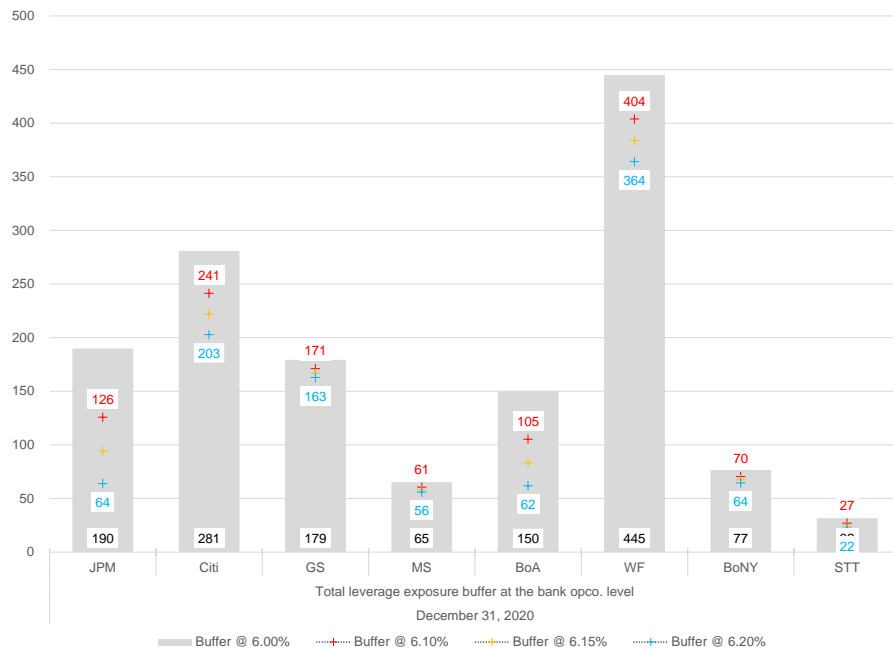
percent, as of the fourth quarter of 2020, 6% minimum



Source: FFIEC 031, Credit Suisse

[Quarterly]: TLE Capacity at the Bank Operating Subsidiary Level

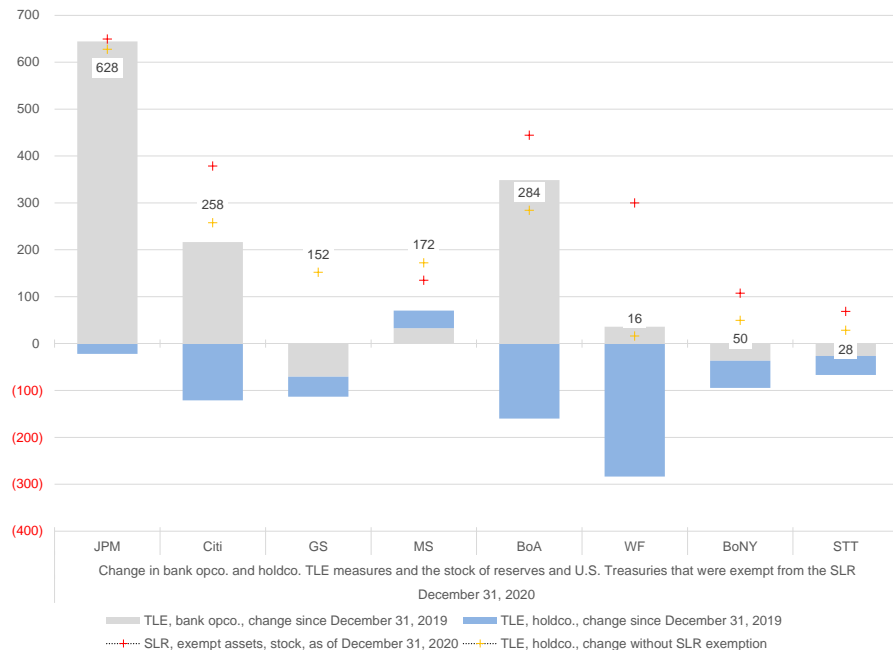
\$ billion, as of the fourth quarter of 2020



Source: FFIEC 031, Credit Suisse

[Quarterly]: TLE "Shock" at the Holding Company Level on April 1st, 2021

\$ billion, as of the fourth quarter of 2020



Source: FFIEC 031, Y-9C, Credit Suisse

Additional Important Information

This material has been prepared by the Investment Strategy Department personnel of Credit Suisse identified in this material as "Contributors" and not by Credit Suisse's Research Department. The information contained in this document has been provided as general market commentary only and does not constitute any form of personal advice, legal, tax or other regulated financial advice or service. It is intended only to provide observations and views of the Investment Strategy Department analysts, other Credit Suisse departments, or the proprietary positions of Credit Suisse. Observations and views expressed herein may be changed by the Investment Strategy Department at any time without notice. Credit Suisse accepts no liability for losses arising from the use or reliance on of this material. This material is not for distribution to retail clients and is directed exclusively at Credit Suisse's institutional clients.

FOR IMPORTANT DISCLOSURES on companies covered in Credit Suisse Global Markets Division research reports, please see <http://www.credit-suisse.com/researchdisclosures>. To obtain a copy of the most recent Credit Suisse research on any company mentioned please contact your sales representative or go to <http://www.credit-suisse.com/researchandanalytics>.

This material does not purport to contain all of the information that an interested party may desire and, in fact, provides only a limited view of a particular market. It is not investment research, or a research recommendation for regulatory purposes, as it does not constitute substantive research or analysis. This material is provided for informational purposes only and does not constitute an invitation or offer to subscribe for or purchase any of the products or services mentioned.

The information provided is not intended to provide a sufficient basis on which to make an investment decision and is not a personal recommendation or investment advice. While it has been obtained from or based upon sources believed by the trader or sales personnel to be reliable, each of the trader or sales personnel and Credit Suisse does not represent or warrant its accuracy or completeness and is not responsible for losses or damages arising from the use or reliance on of this material.

Where distribution of this material is subject to the rules of the U.S. Commodity Futures Trading Commission ("CFTC"), it is a "solicitation" of derivatives business only as that term is used within CFTC Rule 1.71 and 23.605 promulgated under the U.S. Commodity Exchange Act (the "CFTC Rules") where applicable, but is not a binding offer to buy/sell any financial instrument. The views of the author may differ from others at Credit Suisse Group (including Credit Suisse Research).

Credit Suisse is acting solely as an arm's length contractual counterparty and not as a financial adviser (or in any other advisory capacity including tax, legal, accounting or otherwise) or in a fiduciary capacity. Any information provided does not constitute advice or a recommendation to enter into or conclude any transaction. Before entering into any transaction, you should ensure that you fully understand the potential risks and rewards and independently determine that it is appropriate for you given your objectives, experience, financial and operational resources, and other relevant circumstances. You should consult with such advisers (including, without limitation, tax advisers, legal advisers and accountants) as you deem necessary.

Credit Suisse Securities (Europe) Limited ("CSSEL") and Credit Suisse International ("CSI") are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority under UK laws, which differ from Australian Laws. CSSEL and CSI do not hold an Australian Financial Services Licence ("AFSL") and are exempt from the requirement to hold an AFSL under the Corporations Act (Cth) 2001 ("Corporations Act") in respect of the financial services provided to Australian wholesale clients (within the meaning of section 761G of the Corporations Act) (hereinafter referred to as "Financial Services"). This material is not for distribution to retail clients and is directed exclusively at Credit Suisse's professional clients and eligible counterparties as defined by the FCA, and wholesale clients as defined under section 761G of the Corporations Act. Credit Suisse (Hong Kong) Limited ("CSHK") is licensed and regulated by the Securities and Futures Commission of Hong Kong under the laws of Hong Kong, which differ from Australian laws. CSHKL does not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act in respect of providing Financial Services. Credit Suisse Equities (Australia) Limited (ABN 35 068 232 708) ("CSEAL") is an AFSL holder in Australia (AFSL 237237). In Australia, this material may only be distributed to Wholesale investors as defined in the Corporations Act. CSEAL is not an authorised deposit taking institution and products described herein do not represent deposits or other liabilities of Credit Suisse AG, Sydney Branch. Credit Suisse AG, Sydney Branch does not guarantee any particular rate of return on, or the performance of any products described.

If this material is issued and distributed in the U.S., it is by Credit Suisse Securities (USA) LLC ("CSSU"), a member of NYSE, FINRA, SIPC and the NFA, and CSSU accepts responsibility for its contents. Clients should contact sales coverage and execute transactions through a Credit Suisse subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise. Investment banking services in the United States are provided by Credit Suisse Securities (USA) LLC, an affiliate of Credit Suisse Group. CSSU is regulated by the United States Securities and Exchange Commission under United States laws, which differ from Australian laws. CSSU does not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act in respect of providing Financial Services. Credit Suisse Asset Management LLC (CSAM) is authorised by the Securities and Exchange Commission under US laws, which differ from Australian laws. CSAM does not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act in respect of providing Financial Services.

This report may not be reproduced either in whole or in part, without the written permission of Credit Suisse. All trademarks, service marks and logos used in this document are trademarks or service marks or registered trademarks or service marks of Credit Suisse or its information providers. All material presented in this document, unless specifically indicated otherwise, is under copyright to Credit Suisse or its information providers. Copyright © 2021 Credit Suisse Group AG and/or its affiliates. All rights reserved.