September 21, 2018

The Honorable Jerome H. Powell
Chairman
The Honorable Randal K. Quarles
Vice Chairman for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Further Response to Requests to Reduce Capital

Dear Chairman Powell and Vice Chairman Quarles,

I wrote you on August 26, 2018 regarding two letters you had been sent by a number of members of the U.S. House of Representatives' Financial Services Committee and the Senate Banking Committee regarding the capital surcharge that is imposed on the very largest U.S. financial institutions.[1] I encouraged you to reject these and any other similar requests to reduce the capital surcharge on the small number of global systemically important banks (GSIBs) which are currently subject to it.

In rebutting one of the particular arguments, we provided evidence that the Federal Reserve's capital surcharge poses no threat to U.S. banks' international competitiveness and pointed out that all available evidence showed that U.S. banks are dominating nearly every category of banking activity globally. While you may have seen some of the latest commentary on this, I wanted to make sure that you did.

First, an extensive analysis in the Financial Times, by its Banking Editor Martin Arnold, entitled "How US Banks Took Over the Financial World,"[2] is particularly revealing. His indisputable conclusion is directly on point and rebuts all claims of US banks purported disadvantages vis-à-vis international competition:

[1] August 26, 2018 letter from Dennis Kelleher to Chairman Powell and Vice Chairman Quarles; July 27, 2018 Letter from Congressman Barr, et al., to Vice Chairman Randall K. Quarles; August 2, 2018 Letter from Senator Rounds, et al., to Chairman Powell (Politico Pro link, subscription required).
[2] "How US Banks Took Over the Financial World," Martin Arnold, September 16, 2018, available at https://www.ft.com/stream/ae48de51-9a29-453f-a979-3cc70cb3266b.

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> "During the [last] decade, Wall Street's top groups would go on to establish a seemingly unshakable dominance in global corporate and investment banking. European banks, meanwhile, have been forced into a steady retreat…."

As Mr. Arnold notes, just ten years earlier, European and UK banks had the largest financial institutions and had a preeminent position within the world's banking community. In fact, they were looked to in 2008 as sources of strength and possible saviors for US banks. As is well known and documented, that has all changed. The article contains a remarkable graph that shows the dramatic rise of US banks and the shocking decline of European and UK banks and the numbers tell the story:

> "According to figures compiled by the Financial times, the top five European banks – HSBC, RBS, BNP Paribas, Barclays and Deutsche Bank – made close to $60 billion of combined net profits in 2007. This was a fifth higher than the earnings of their main US rivals: JPMorgan Chase, Bank of America, Citigroup, Morgan Stanley and Goldman Sachs.
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> "By 2017, the picture had changed dramatically. The net profits of European groups had shrunk over two-thirds to $17.5 billion, more than a quarter below the $24.4 billion that JP Morgan Chase earned on its own last year. Indeed, JPMorgan Chase's $380 billion market capitalization exceeds that of its five European rivals combined."

This is reflected in market share gains and losses: "Between 2006 and 2016, the top five US banks gained 6 percentage points of market share in global wholesale banking revenues, while the top five Europeans have lost 4 percentage points…."

The result is surging US bank dominance:

> "In the past decade, the five European banks tracked by the FT have shrunk their revenues by 20 percent, their assets by 15 percent and their workforce by almost 30 percent. Meanwhile, their five Wall Street rivals have grown their revenues by 12 percent and their assets by 10 percent, while their headcount has shrunk by less than 10 percent."

In commenting on what this means for the US banks' pricing power in Europe, Mr. Arnold quoted the CEO of Société Générale as observing "I would not call [US bank dominance in Europe] an oligopoly, but it is not far off."

Second, a recent Bloomberg article, entitled "For Ackermann, America First Means Europe Needs Bank Mergers,"[3] discussed similar subjects, albeit more focused on Deutsche Bank. The former Deutsche Bank CEO was quoted that, "in investment banking, 'the U.S. is absolutely taking over.'" The article further notes that "a decade after Lehman and the TARP

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[3] "For Ackermann, America First Means Europe Needs Bank Mergers," Stefania Spezzati and Guy Johnson, September 9, 2018, available at https://www.bloomberg.com/news/articles/2018-09-09/for-ackermann-america-first-means-europe-needs-bank-mergers?srnd=markets-vp.

recapitalization that's widely viewed to have put U.S. banks on a sound footing, European banks are in a position of inferiority and have no choice but to pursue cross-border mergers."

Regarding Deutsche Bank in particular, "it was Europe's biggest bank by assets," but is now "a shadow of its boom-time self." Again, the numbers tell the story: "In the second quarter, U.S. banks increased their total trading revenue by 9.5 percent, with deal-making fees up 7 percent, while Deutsche Bank had had its weakest second quarter in fixed-income since the global crisis." Things are so bad that Germany's Finance Minister "bemoaned that the financial crisis caused German banks to fall behind global rivals."

Thus, added to the information in my August 26, 2018 letter, this shows yet again that there simply is no basis for US banks to complain that capital requirements – or any other requirements for that matter – is impairing their ability to compete internationally, where they are doing exceptionally well. We urge you to reject any requests to reduce capital, which would reduce what has proven to be an effective and sensible bulwark for our financial system and the American taxpayer, particularly because the country needs to be prepared for the downturn. This is especially true given how well US banks have been able to perform in terms of revenue, profits, lending and market share notwithstanding the capital and other post-crisis requirements of the Fed and other regulators.

Thank you for your consideration of this letter.

Sincerely,

Dennis M. Kelleher
President and CEO

CC: Vice Chairman Richard H. Clarida
Governor Lael Brainard
Ms. Ann E. Misback, Secretary, Board of Governors

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