

Discussion of Ueda and Weder di Mauro

“Quantifying Structural Subsidy Values for Systemically Important Financial Institutions”

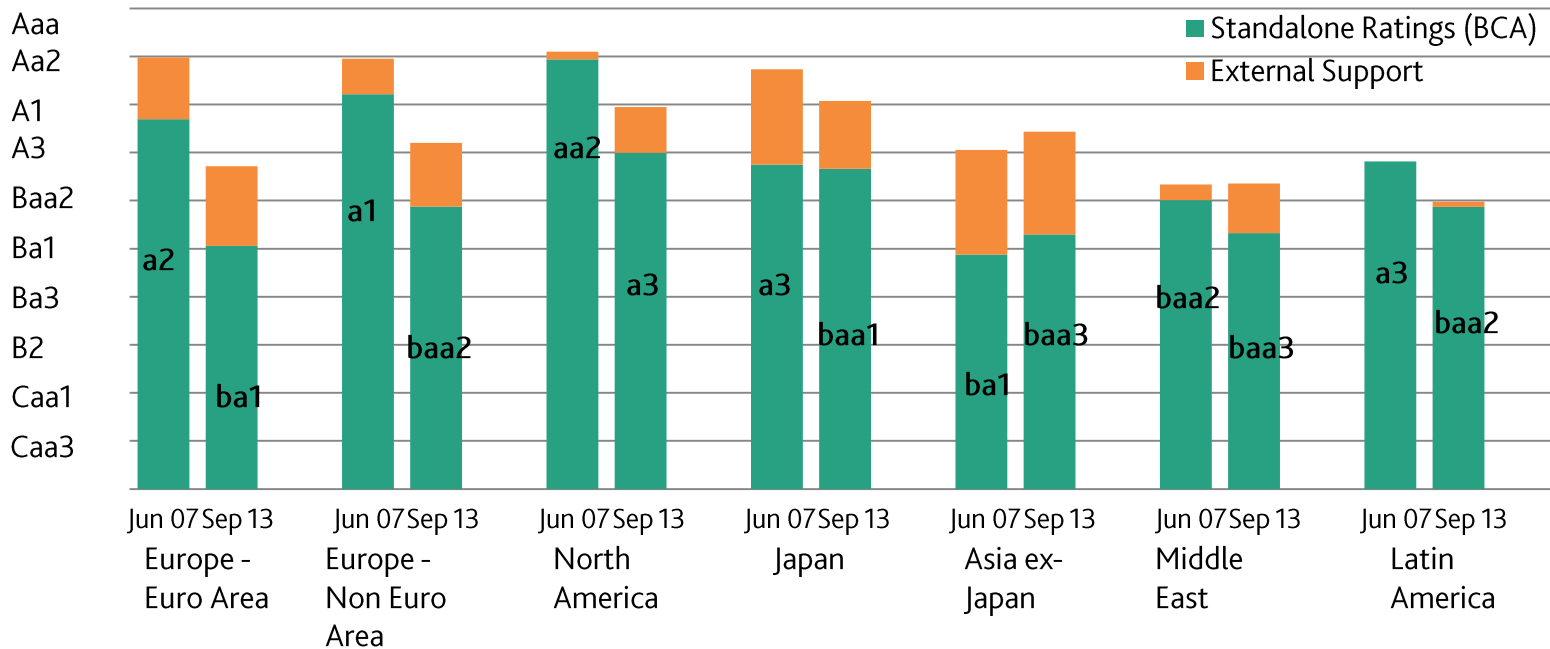
Selected Comments

'Constructive ambiguity has given way to near certainty that sufficiently large or complex institutions will not be allowed to fail'

'Many banks are larger than before and so are implicit government guarantees'

'We find that the structural subsidy value is already sizable as of end-2007 and increased substantially by the end-2009, after key governments confirmed bailout expectations.'

June 2007 and September 2013



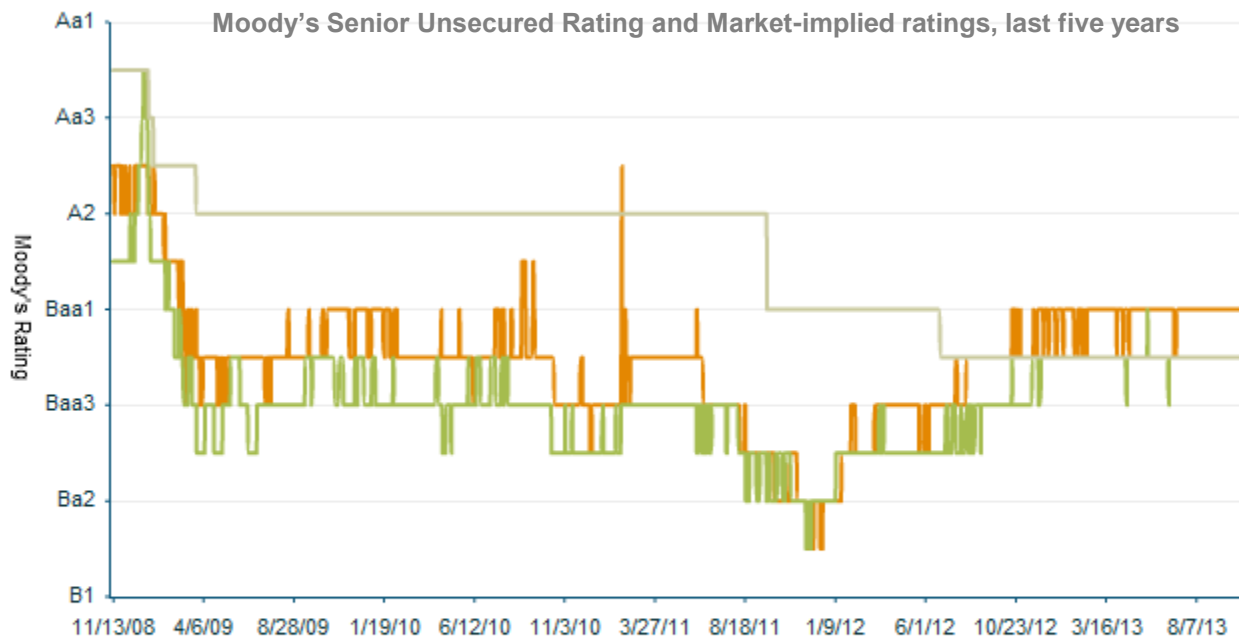
Source: Moody's Investors Service

Selected Comments

'We estimate the value of the structural subsidy using expectations of government support embedded in credit ratings.'

'All that matters is that markets use ratings in pricing debt instruments and those ratings influence funding costs. This has been the case. Therefore, we can use the difference in overall credit ratings of banks as a proxy for the difference in their structural funding costs.'

Bank of America Corp



Data as of Nov 08, 2013

Bank of America Corporation

■ Bond-Implied

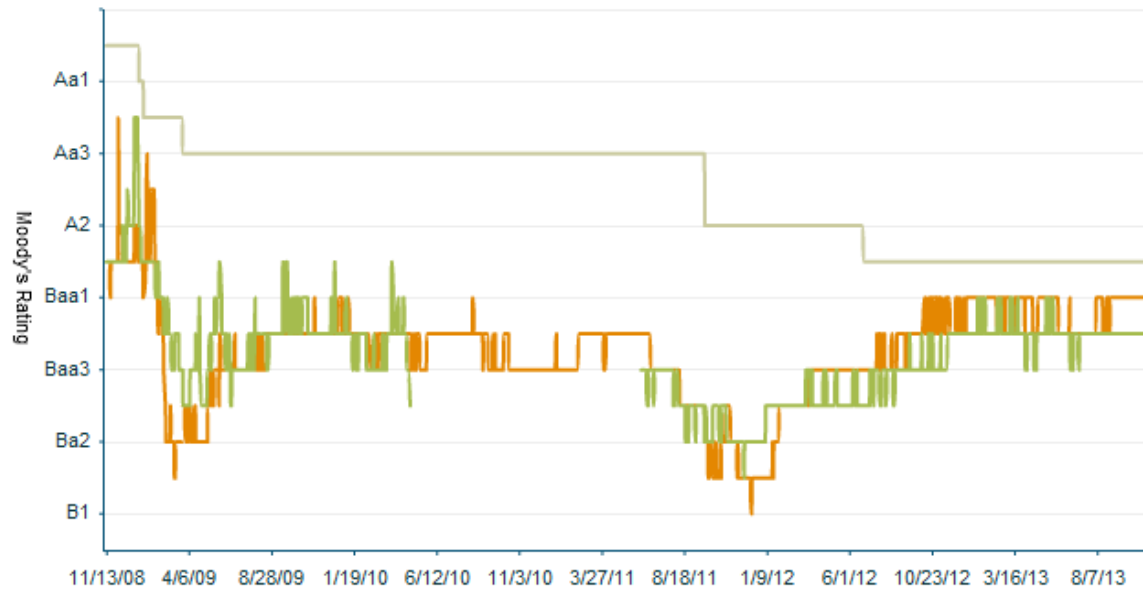
■ Credit Default Swap-Implied

■ Moody's Senior Unsecured or Equivalent Rating

Selected Comments

Bank of America, N.A.

Moody's Senior Unsecured Rating and Market-implied ratings, last five years



Data as of Nov 08, 2013

Bank of America, N.A.

- Bond-Implied
- Credit Default Swap-Implied
- Moody's Senior Unsecured or Equivalent Rating

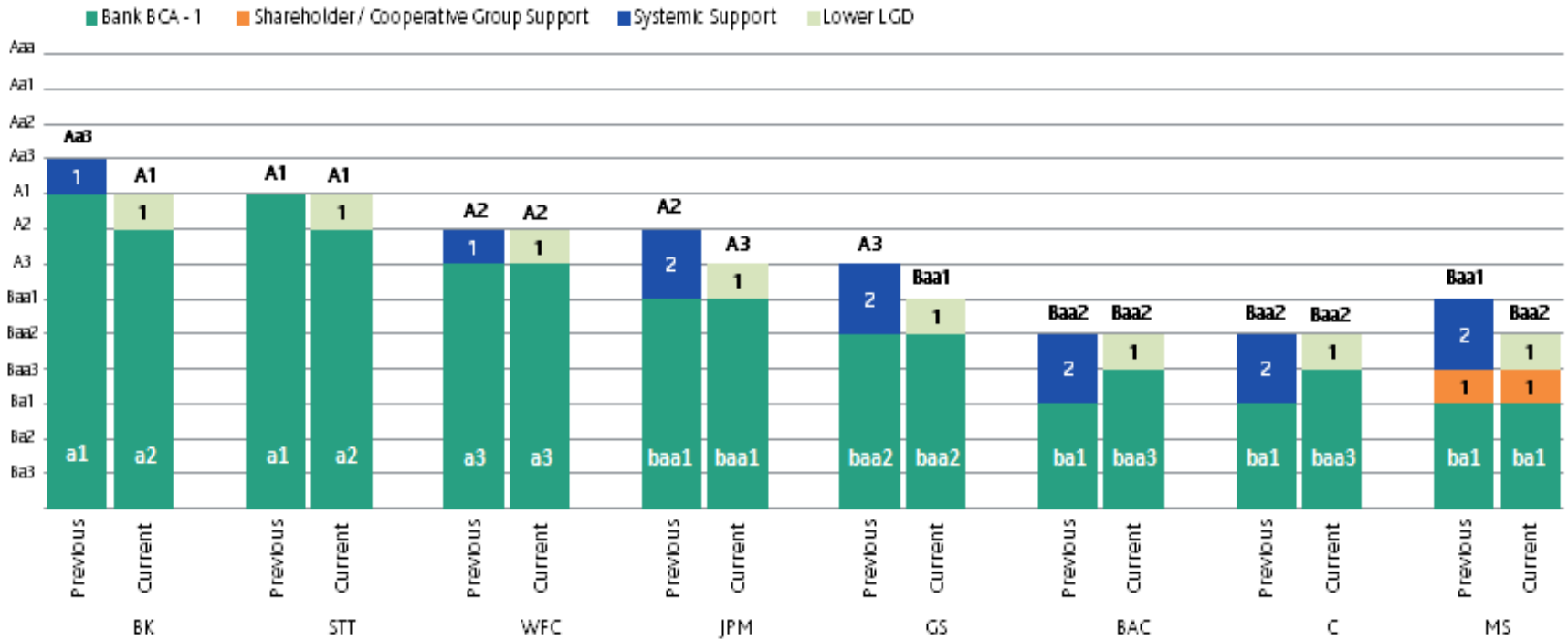
Selected Conclusions

'Rating agencies seem to attach a higher importance to banks' profitability after the crisis, compared to before its advent, and a lower importance to size.'

'We can evaluate the overall funding cost advantage of SIFIs as around 60bp in 2007 and 80bp in 2009.'

'This is helpful information, for example, if one would like to design a corrective levy on banks, which extracts the value of the subsidy.'

Removal of Systemic Support from US Bank Holding Ratings – November 14 Rating Actions



Source: Moody's Investors Service

Support May Be Reduced in EU

- » Protecting taxpayers is as important an objective in the EU as in the US
 - Bail-in of junior creditors is increasingly the norm
- » A more effective resolution framework is being developed, with clear intent to bail-in creditors
- » Credit negative for senior unsecured creditors of EU banks
 - Around 2/3 of EU bank ratings are uplifted by support. Several large banks have 3 notches of support, implying a 70-80% probability of support
- » But, many areas of uncertainty remain
 - Will bail-out remain an option?
 - Which bail-in model will predominate – SPOE or MPOE?
 - Will depositors (and other creditors) receive preference in a resolution?
 - Will bail-in be introduced ahead of the 2018 deadline?

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