

# Minneapolis Fed Symposium



Stuart Plessner

Senior Director  
Financial Institutions

September 26<sup>th</sup>, 2016

# What A Credit Rating Is And What It Is Not

## What it is:

Forward-looking opinions about relative credit risk, i.e., the creditworthiness of an entity or its securities that ...

... strive to be globally comparable across sectors

Incorporate views on relative likelihood of default that ...

refer to the timely payment of interest and principal and ...

... are applied to entities and securities

## What it's not:

- Investment advice, a recommendation to purchase, sell or hold securities, or a comment as to market price or suitability for an investor
- a measure of liquidity or market value
- a way of defining “good” or “bad” companies, or a direct assessment of corporate governance
- an audit of the company or its auditors
- a guarantee of credit quality or of future credit risk

# BANK RATINGS FRAMEWORK

## BICRA Methodology

### MACRO FACTORS

Economic risk score

Industry risk score

**BICRA**  
Banking Industry  
Country Risk  
Assessment  
score

## Bank Rating Methodology

### BANK-SPECIFIC FACTORS

Business position

Capital and earnings

Risk position

Funding and liquidity

**Anchor**  
Stand Alone  
Credit Profile

### EXTERNAL SUPPORT

Group support

Government support

Additional Loss  
Absorbing  
Capacity (ALAC)

**SACP**  
Stand Alone  
Credit Profile

Hybrid debt  
and preferred stock  
ratings

Setting  
the  
**ICR**  
Issuer  
Credit Rating

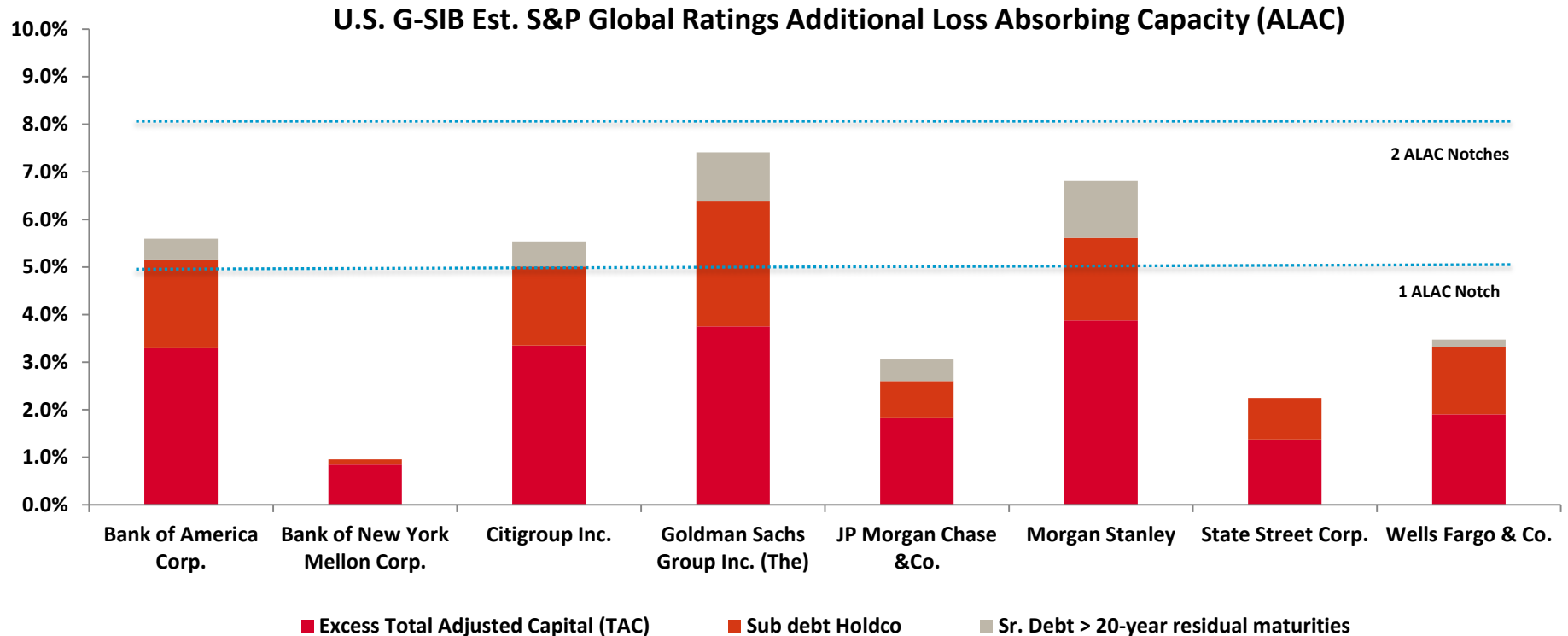
Senior  
unsecured  
ratings

# Moderately High Likelihood of Extraordinary Government Support

SACP	Government's local currency rating															
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-
aaa	AAA															
aa+	AA+	AA+														
aa	AA	AA	AA													
aa-	AA	AA-	AA-	AA-												
a+	AA-	AA-	A+	A+	A+											
a	A+	A+	A+	A	A	A										
a-	A+	A	A	A	A-	A-	A-									
bbb+	A	A	A-	A-	A-	BBB+	BBB+	BBB+								
bbb	A-	A-	A-	BBB+	BBB+	BBB+	BBB	BBB	BBB							
bbb-	BBB+	BBB+	BBB+	BBB+	BBB	BBB	BBB	BBB	BBB-	BBB-	BBB-					
bb+	BBB	BBB	BBB	BBB	BBB	BBB	BBB-	BBB-	BBB-	BB+	BB+	BB+				
bb	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BB+	BB+	BB+	BB	BB	BB			
bb-	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB	BB	BB	BB-	BB-	BB-			
b+	BB	BB	BB	BB	BB	BB	BB	BB	BB-	BB-	BB-	B+	B+	B+		
b	BB-	BB-	BB-	BB-	BB-	BB-	BB-	BB-	BB-	B+	B+	B+	B	B	B	
b-	B+	B+	B+	B+	B+	B+	B+	B+	B+	B+	B	B	B	B-	B-	B-
ccc+	B	B	B	B	B	B	B	B	B	B	B-	B-	B-	CCC+	CCC+	CCC+
ccc	B-	B-	B-	B-	B-	B-	B-	B-	B-	B-	CCC+	CCC+	CCC+	CCC	CCC	CCC
ccc-	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC	CCC	CCC	CCC-	CCC-	CCC-
cc	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC-	CCC-	CCC-	CC	CC	CC

SACP—Stand-alone credit profile.

# Estimated ALAC - U.S. banks



**Source:** Company Filings; Data as of 12/31/2015; Calculations based on Est Q415 S&P RWA;  
Excludes all senior long-term debt instruments with less than 20-year residual maturities and trust preferred securities

- We have adjusted our initial thresholds for ALAC by +25 bps for all US GSIBs (except WFC, BK and STT) based on the operating banks' ability to maintain flexibility within the group
- We may continue to adjust these thresholds based on possible issues like large maturities of ALAC within five years, or an increasing amount of ALAC needed to be prepositioned in material subsidiaries

# Outlook Revisions On U.S. Global Systemically Important Bank Ratings

- On December 2, 2015, we lowered the holdco ratings on all eight U.S. GSIBs.
- The above actions reflect a revision in our expectation of the likelihood of extraordinary government support to U.S. banks, as "uncertain" from "supportive"; which is based on our opinion that the U.S. regulators have in place an effective resolution framework.
- Issuer and senior unsecured debt ratings on the core and highly strategic operating subsidiaries of BAC, C, MS and GS remain on CreditWatch positive, reflecting a possible additional one-notch upgrade from ALAC.
- Ratings on the core and highly strategic operating subsidiaries of BK, JPM, WFC and STT unchanged with a stable outlook.

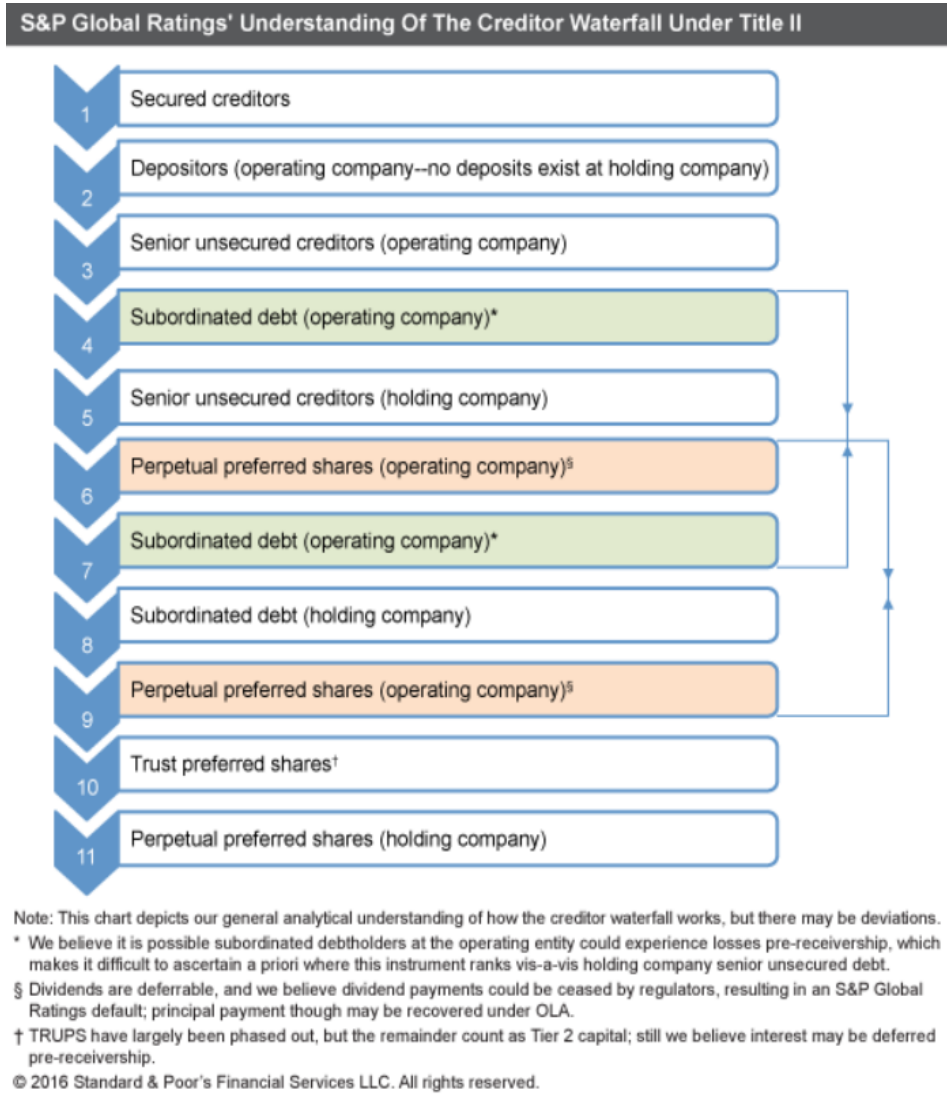
## Current U.S. Global Systemically Important Bank Ratings

Company	SACP/unsupported GCP	ALAC Notches (#)	OpCo Ratings	Long-term rating (HoldCo)
Bank of America Corp.	a-	1*	A/Watch Pos/A-1	BBB+/Stable/A-2
Citigroup Inc.	a-	1*	A/Watch Pos/A-1	BBB+/Stable/A-2
Wells Fargo & Co.	a+	1	AA-/Stable/A-1+	A/Stable/A-1
JPMorgan Chase & Co.	a	1	A+/Stable/A-1	A-/Stable/A-2
Morgan Stanley	bbb+	1*	A/Watch Pos/A-1	BBB+/Stable/A-2
The Goldman Sachs Group Inc.	bbb+	1*	A/Watch Pos/A-1	BBB+/Stable/A-2
Bank of New York Mellon Corp.	a+	1	AA-/Stable/A-1+	A/Stable/A-1
State Street Corp.	a+	1	AA-/Stable/A-1+	A/Stable/A-1

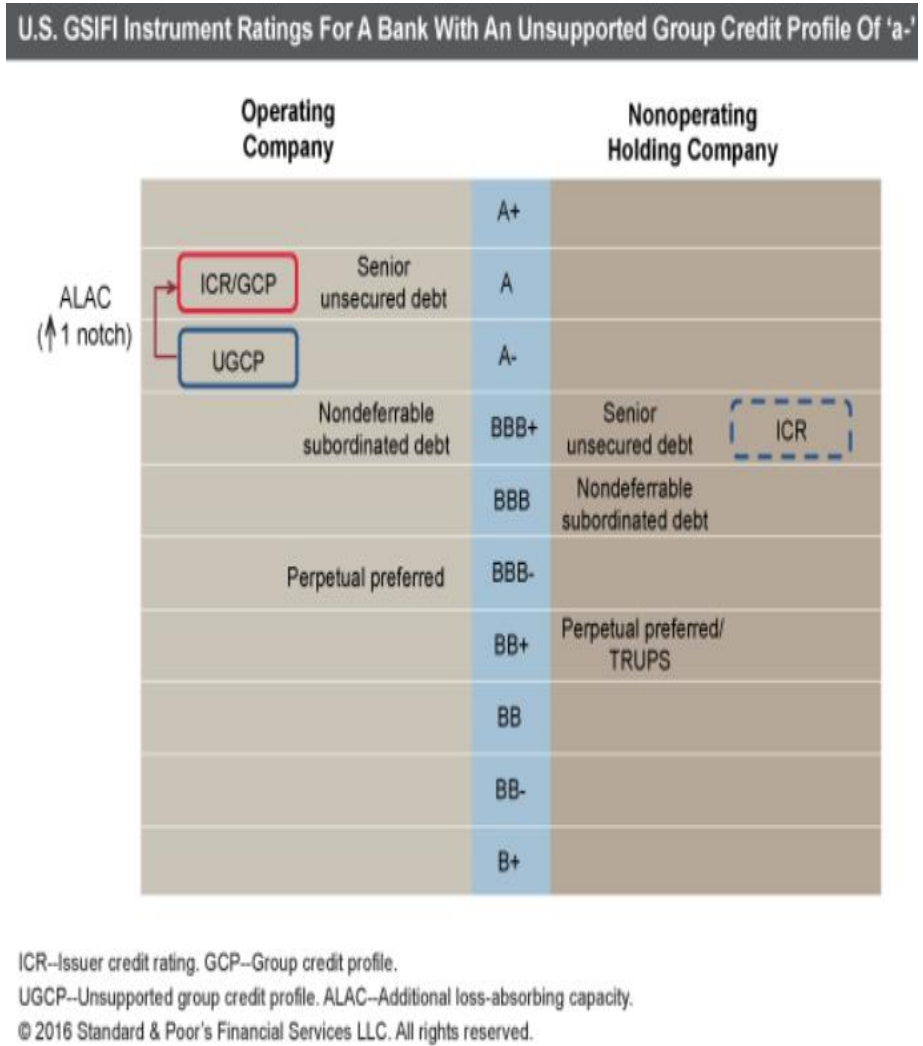
*SACP--Stand-alone credit profile. GCP--group credit profile. Opco--Operating company. holdco--Holding company. The GCP is Standard & Poor's opinion of a groups' creditworthiness as if it were a single legal entity. Unsupported GCP designates our opinion of a group's creditworthiness excluding the likelihood of extraordinary government support, ALAC or negative intervention from a government or wider group. ALAC- Additional loss absorbing capacity as defined by our criteria. N.A. : Not Applicable*

*\*Credit Watch Positive reflecting possible additional ALAC notch. Source: Standard & Poor's Financial Institutions Ratings.*

# Issuer credit ratings on the GSIFIs are in line with our analytical understanding of the creditor waterfall



**S&P Global**  
Ratings



# Estimating Potential TLAC Requirements For Systemically Important Banks

Estimates of TLAC Shortfalls (\$mil)	BAC	C	JPM	WFC	GS	MS	BK	STT	Total
Based on December 2015 Data									
TLAC Requirement Without Considering LTD Constraint									
Min TLAC by RWA	18%	18%	18%	18%	18%	18%	18%	18%	
Min TLAC by Leverage	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	
Min total TLAC/RWA	22.0%	22.5%	23%	21.5%	22%	26.3%	21.6%	23.6%	
TLAC Required	29,739	5,973	21,706	21,081	-	-	529	-	<b>79,028</b>
Binding Constraint at 2022	RWA	RWA	RWA	RWA	Leverage	Leverage	Leverage	Leverage	
Minimum Long term Debt Calculation									
Min LTD by RWA	9.00%	9.00%	9.50%	8.00%	8.50%	9.00%	7.00%	7.50%	
Min LTD by Leverage	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	
Implied Long-Term Debt Shortfall	9,744	14,062	27,157	11,851	-	-	-	2,221	<b>65,036</b>
Total Additional LTD and Tier 1 Capital Needed	<b>29,739</b>	<b>14,062</b>	<b>27,157</b>	<b>21,081</b>	-	-	<b>529</b>	<b>2,221</b>	<b>94,789</b>
Constraining Factor	TLAC	LTD	LTD	TLAC	None	None	TLAC	LTD	

## Notes:

1. Consider new reduced GSIB surcharges for Citi, JPM and GS of 3%, 3.5%, and 2.5%, respectively.
2. Does not incorporate any assumption that the companies could reduce total leverage exposure.
3. Does not exclude non-US jurisdictional debt
4. Excludes structured debt wherever disclosure is available



# S&P's Views On U.S. TLAC Requirements

- Although the level of capital that needs to be maintained under the total loss-absorbing capacity (TLAC) proposal should suffice to recapitalize a failed GSIB, **regulators and bank management teams need to be cautious and vigilant** so that the very issuance of the TLAC to prepare for a failure does not generate incremental vulnerability related to refinancing risk and a higher risk appetite.
- The amount of TLAC that U.S. GSIBs will need to issue seems **manageable from a market supply perspective**, as long as long-term debt with acceleration clauses (outside of nonpayment) counts as TLAC.
- We think GSIBs **would benefit from being able to maintain a degree of flexibility in terms of distribution** of regulatory TLAC across their subsidiaries globally in order to allocate buffers, if needed, as risks emerge within particular entities of a group.
- **TLAC disclosure** is important for investors to better assess their risk positioning in the payments waterfall and to enhance the credibility of the resolution plan.

# **S&P Global's Views On Living Wills**

## **Progress Has Been Made But Deficiencies Still Exist**

- **Liquidity**
- **Governance**
- **Operational**
- **Legal entity**
- **Derivatives**

# S&P Global Ratings

Copyright © 2016 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

## Australia

Standard & Poor's (Australia) Pty. Ltd. holds Australian financial services license number 337565 under the Corporations Act 2001. Standard & Poor's credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.