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Financial System Structures Seen from Outside the US

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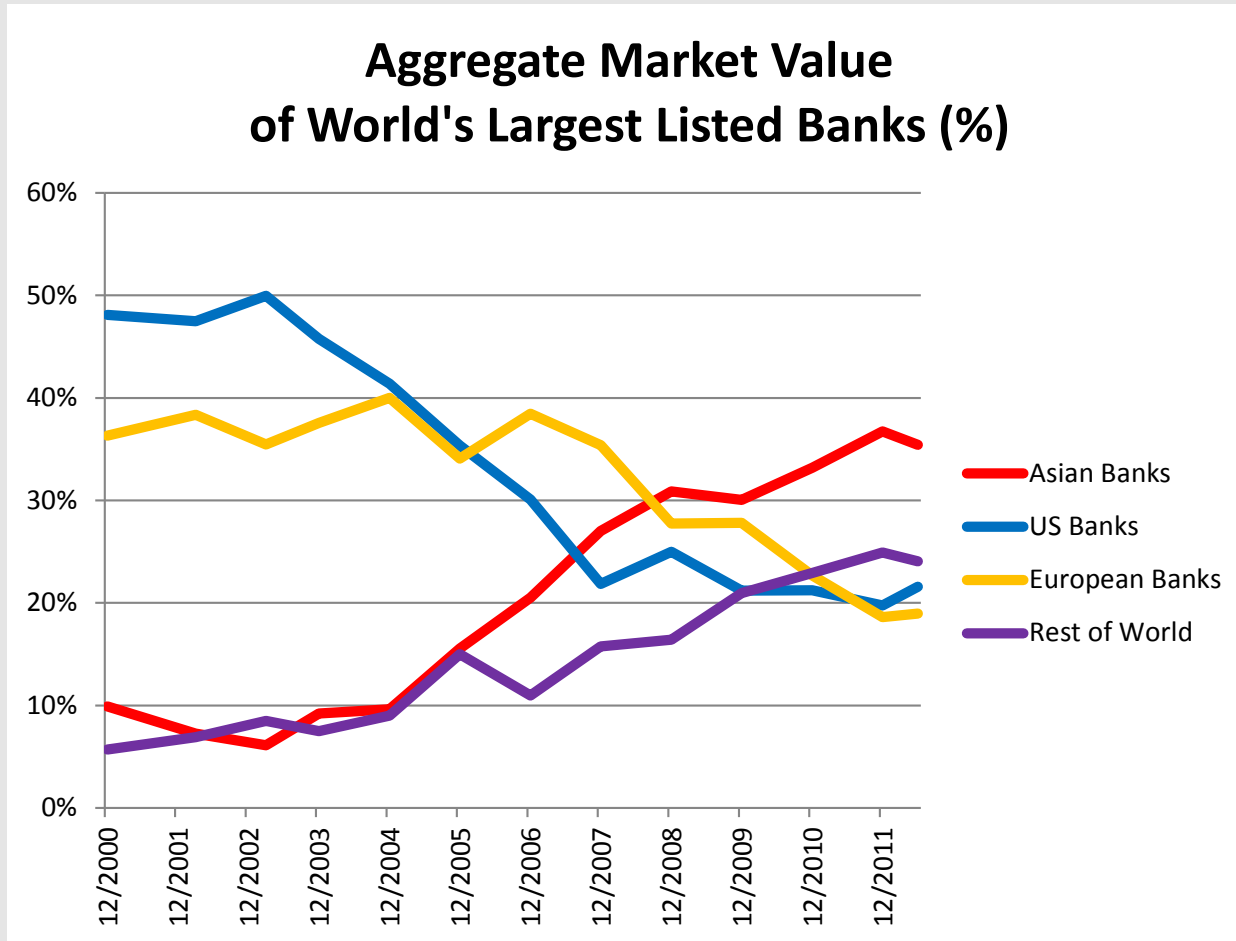
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The Brookings Institution

Washington DC, December 4, 2012



An Increasingly Multipolar World...



Sample: banks in FT Global 500 rankings. Source: FT, author's calculations



Non-US Financial Systems Are More Bank-based...

- **Typically 70-75% bank-based (in Europe) vs 25-30% in the US**
 - Even more so in many large emerging economies
- **Comparatively underdeveloped channels**
 - Equity financing (public and private)
 - Specialized credit institutions: leasing, consumer credit, etc.
 - Mid-sized corporate bond issuance (high-yield)
 - Loan securitization
 - Mezzanine funds and other credit funds

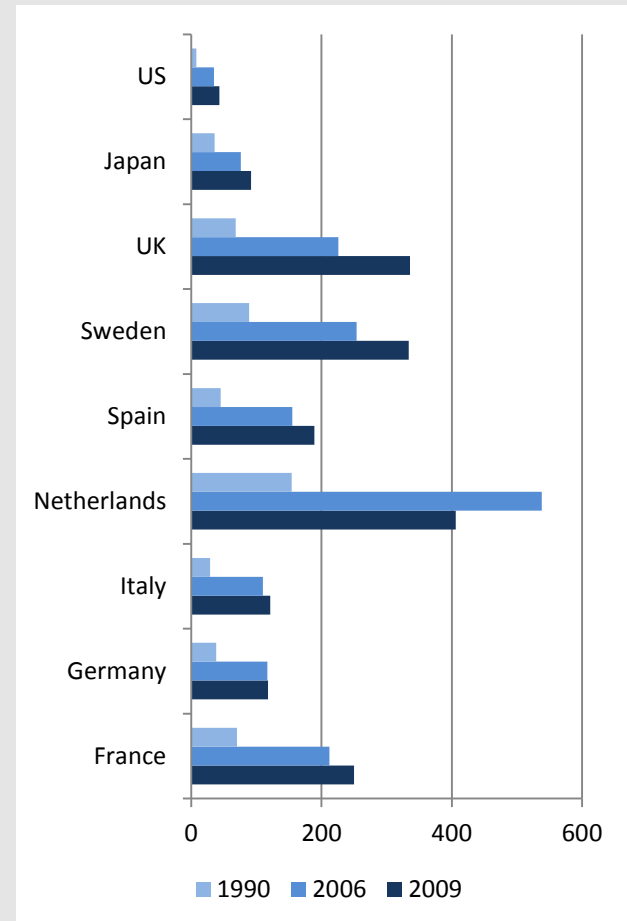


...Non-US Banks Are Comparatively Larger...

World's largest banks by assets

Bank	Country	2011 Assets \$m
Deutsche Bank	Germany	2,800,133
MUFG	Japan	2,664,171
HSBC	UK	2,555,579
BNP Paribas	France	2,542,880
ICBC	China	2,456,295
Credit Agricole	France	2,431,932
Barclays	UK	2,417,369
RBS	UK	2,329,767
JP Morgan Chase	US	2,265,792
Bank of America	US	2,136,578
Mizuho	Japan	2,012,909
CCB	China	1,949,219
Bank of China	China	1,877,520
Citigroup	US	1,873,878
AgBank	China	1,853,319
SMFG	Japan	1,741,213
Santander	Spain	1,619,349
Societe Generale	France	1,528,577
UBS	Switzerland	1,508,303
Lloyds Banking Group	UK	1,500,561
BPCE	France	1,472,969
Wells Fargo	US	1,313,867
ING Bank	Netherlands	1,243,651

Top 3 banks' assets to GDP



Source: *The Banker Database, Bank for International Settlements*



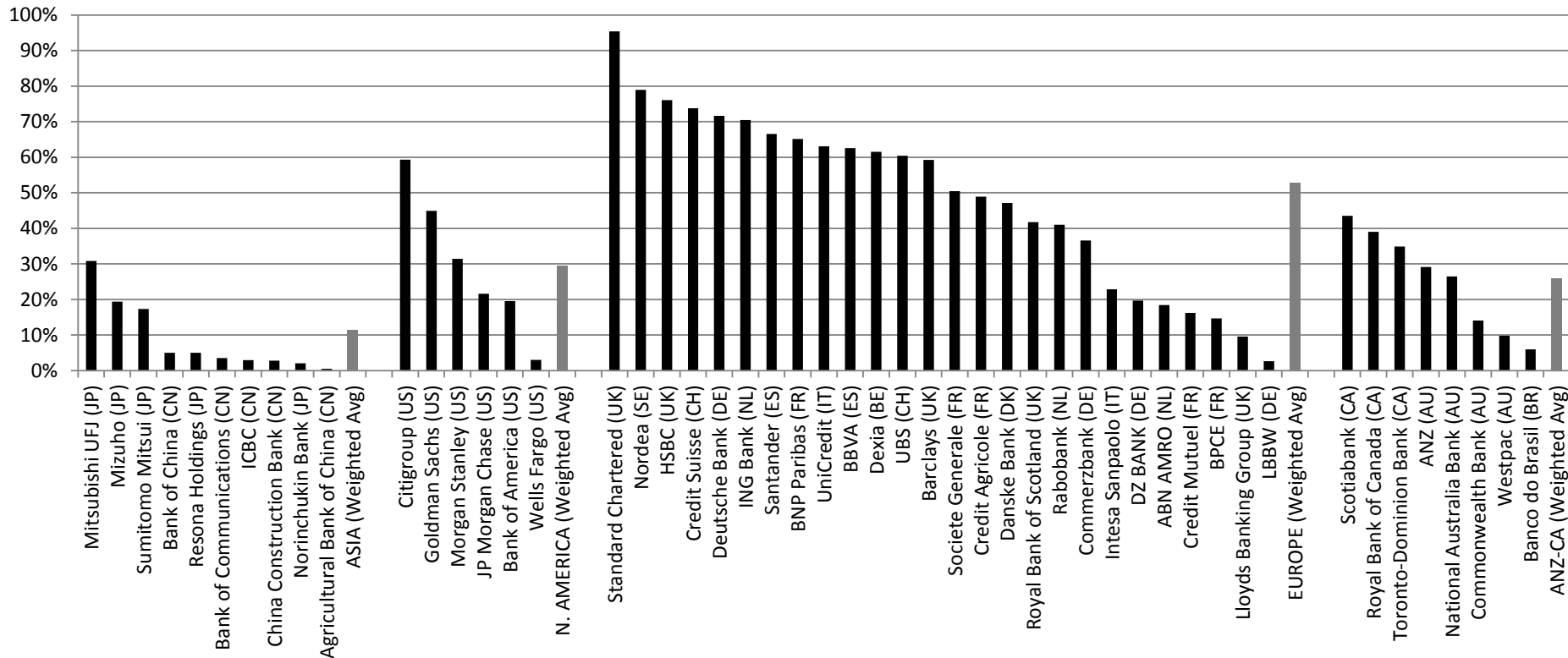
...And Often Unlisted...

- **Unlisted European banks in Global Top 100 by assets**
 - BPCE (#21), Rabobank (#26), Credit Mutuel (#32), DZ Bank (#47), LBBW (#51), Bayern LB (#58), Nationwide (#74)
 - None in the US
- **Listed banks represent less than 40% of German banking sector**
- **Variations in governance, transparency**
 - e.g. German Landesbanken, Spanish savings banks



Banks Have Diverse Internationalization Patterns...

Share of total revenue outside home country, 2010

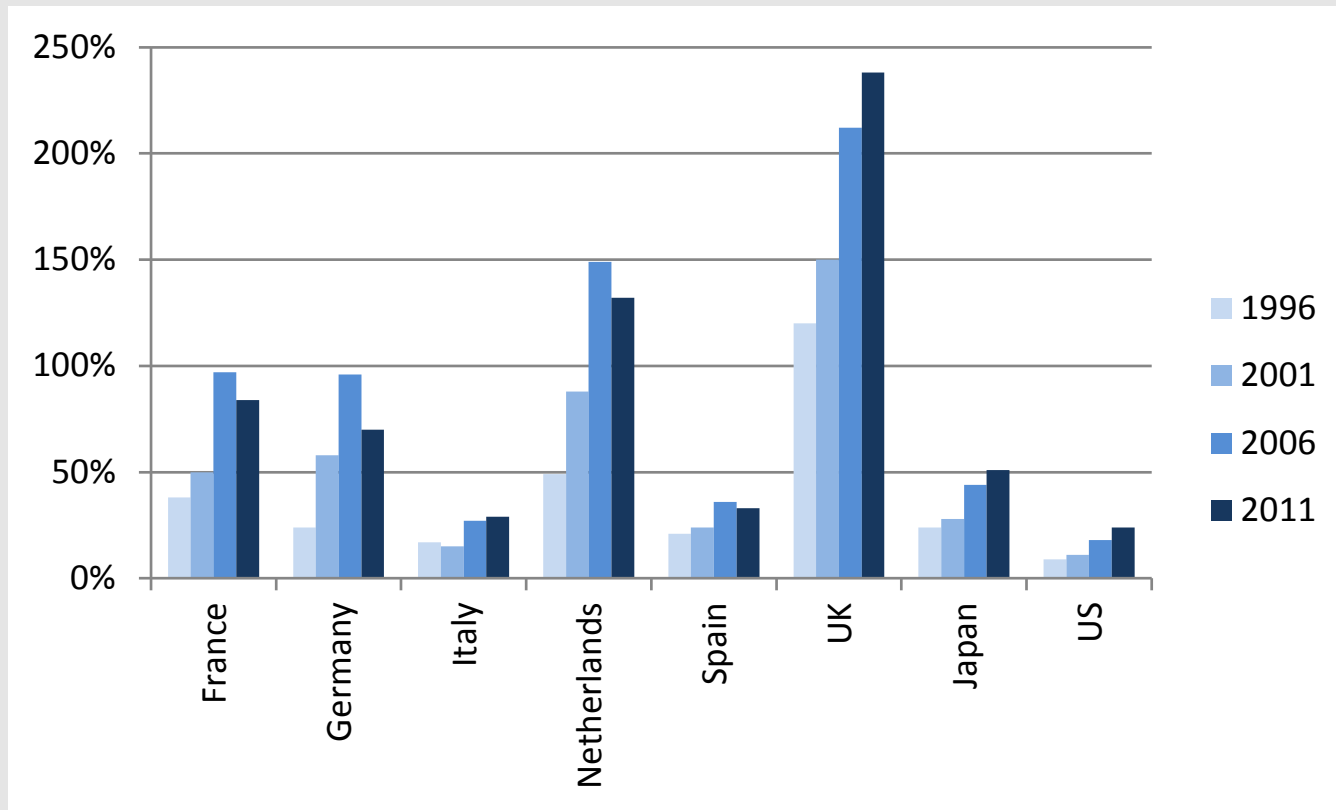


Sample: 50 largest banks by assets; source: annual reports



...Leading to Different National Exposures to International Risks...

Domestic banks' foreign assets relative to GDP



Source: BIS locational banking statistics



Outside the US, Leading Investment Banks Feel More “Foreign”...

Bloomberg Equity Underwriter League Tables, H1 2012

	Global	US	EMEA	Asia-Pac
1	JP Morgan	Citi	Deutsche Bank	UBS
2	Morgan Stanley	Morgan Stanley	Goldman Sachs	Morgan Stanley
3	Citi	JP Morgan	JP Morgan	JP Morgan
4	BofA Merrill Lynch	BofA Merrill Lynch	Credit Suisse	Citi
5	Goldman Sachs	Barclays	BofA Merrill Lynch	BofA Merrill Lynch
6	Deutsche Bank	Goldman Sachs	UBS	Goldman Sachs
7	Credit Suisse	Credit Suisse	Morgan Stanley	Deutsche Bank
8	UBS	Deutsche Bank	Societe Generale	Nomura
9	Barclays	UBS	Citi	CITIC
10	Nomura	Wells Fargo	BNP Paribas	CICC



...And So Do Other Key Market Participants...

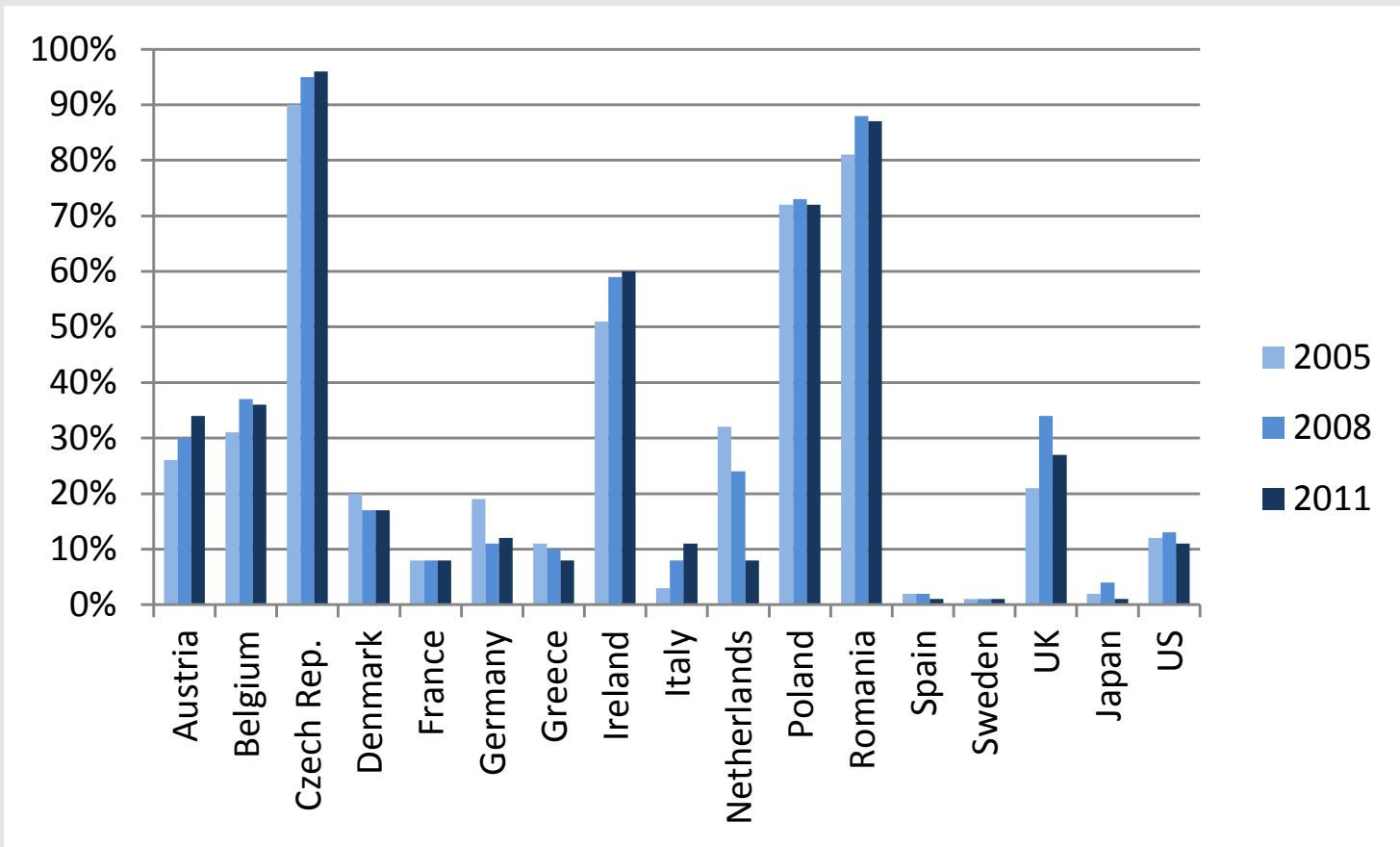
Nationality of Global Leader, Big 5/4 Audit Networks

Andersen		Deloitte		E&Y		KPMG		PwC	
1989-1997	L. Weinbach US	89-99	M. Cook US			87-91	R. Goerdeler DE		
						91-93	J. Butler US		
				94-01	P. Laskawy US	93-95	H. Havermann DE	94-98 (PW)	J. Schiro US
1997-2000	R. Grafton US					95-97	J. Madonna US	94-98 (C&L)	N. Moore US
2001-2002	J. Berardino US	99-03	J. Copeland US			97-99	C. Sharman UK		
2002-2003	A. Cardoso FR	03-07	W. Parrett US	01-13	J. Turley US	99-02	S. Butler US	98-02	J. Schiro US
		07-11	J. Quigley US			02-07	M. Rake UK	02-09	S. DiPiazza US
		11-	B. Salzberg US	13-	M. Weinberger US	07-11	T. Flynn US	09-	D. Nally US
						11-	M. Andrew AU		

Source: public reports, author's research



...And Also Commercial Banks, At Least In Some Smaller Countries...



Assets of foreign-owned banks as % of total domestic banking assets. Source: Bankscope



In Europe, Special Resolution Regimes Are Often Nonexistent or Untested...

- UK – Banking Act 2009
- DE – Restructuring Act 2010
- FR – Under discussion
- IT – Consolidated Law on Finance 1998 (“Draghi Law”)
- ES – Decree-Law on Bank Restructuring and Credit Institution Equity Reinforcement 2009 (FROB), modified 2011
- NL – Under discussion
- IE – Central Bank and Credit Institutions (Resolution) Act 2011
- BE – Financial Crisis Law 2010
- DK – Danish Financial Stability Act 2008
- AT – n.a.
- SE – Government Support to Credit Institutions Act 2008



...and “TBTF” Can Be Really “NBATFNMHS”* ...

- **Definition of failure**
- **US experience since 2008**
 - Bear Stearns (\$400bn), Fannie Mae (\$880bn), Freddie Mac (\$790bn),
AIG (\$1trn)...
 - but also Lehman (\$691bn), WaMu (\$330bn), CIT (\$80bn), MF Global
(\$40bn)...
- **EU experience since 2007...**
 - Starting from IKB (€50bn) in late July 2007...
 - Exceptions DSB Bank (€8bn), Amagerbanken (€4bn), Bradford &
Bingley (£52bn – but losses only on sub debt)
- **...unless the sovereign is itself unable to cope**
 - Iceland 2008, Ireland 2010, Spain 2012
 - Changes ahead

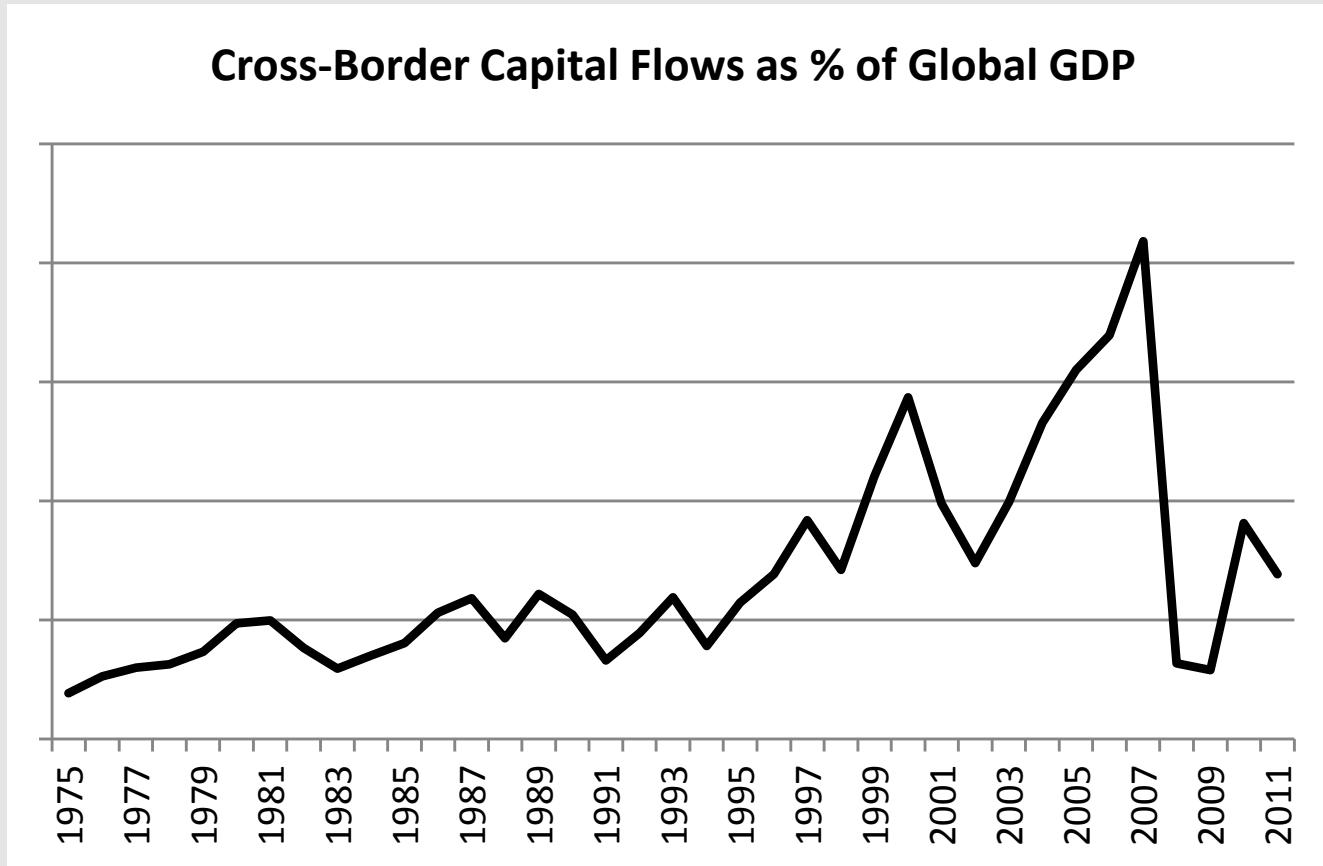


Some Policy Implications

- **Cross-border aspects less central in US**
 - Vs Europe, smaller countries
- **US far ahead in special resolution regimes**
 - Role of FSB / Basel Committee (FSB key attributes)
 - European “Banking Union”
- **Regulation of bank structure**
 - Vickers in UK context
 - Next steps unclear (including in US)
 - No one-size-fits-all approach?



Risk of Global Fragmentation?



Source: Lane/Milesi-Ferretti Database, estimate on 2011



Thank You For Your Attention

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