Policy panel: Ending too-big-to-fail: would the TLAC do the trick?

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TBTF – Resolvability

Media headlines on banking regulation highlight the ongoing public focus on resolving TBTF

Dodd-Frank Goes 0 for 11

The debate over whether federal officials believe the largest banks are still too big to fail ended this week in Washington. After examining the second drafts of “living wills” that each bank is required to submit under the 2010 Dodd-Frank law, financial regulators voted unanimously that not one of the country’s 11 most complicated banks flunking the test, parents naturally raise questions about the quality of the school—and the test. Plenty of bankers will tell you they were given little guid-

Regulators admit they think giant banks are still too big to fail.

‘No more bank bailouts’ cannot be an empty slogan

WORLD NEWS

UK scrambles to save lifeline for banks from EU overhaul; Bank of England

Plans de liquidation

Washington refuse les «testaments» de onze banques, dont UBS et Credit Suisse

Bank of England proposes new laws to abolish state bailouts for failed banks
Unmatched wave of regulatory change

A multitude of national and international initiatives cover a broad range of areas and topics; transformation of the industry substantially driven by regulatory developments
Capital requirements – Swiss capital regime and UBS's ratios

UBS is required to comply with regulations based on the Basel 3 framework as applicable for Swiss systemically relevant banks; UBS has established an industry-leading capital position.

Swiss Basel 3 capital requirements*

- Total capital ratio of up to 19.0%
  - Progressive buffer: 6.0% Low-trigger LAC
  - Buffer: 3.0% High-trigger LAC
  - 10% CET1 capital

2019...

UBS risk-weighted assets and capital ratios

- Capital Ratios (in %)
  - 2012: 9.8%, 11.4%
  - 2013: 12.8%, 15.4%
  - 2014 (Q3): 13.7%, 18.7%
  - 2019 (required): 13.0% (requirement)
  - 2019 (required): 17.5% (requirement)

- RWA (in CHFbn)
  - 2012: 258
  - 2013: 225
  - 2014 (Q3): 219
  - 2019 (required)

UBS LRD and leverage ratio

- Leverage Ratios (in %)
  - 2012: 2.4%
  - 2013: 3.4%
  - 2014 (Q3): 4.2%
  - 2019 (required): 4.4%

- LRD (in CHFbn)
  - 2012: 1'206
  - 2013: 1'020
  - 2014 (Q3): 985
  - 2019 (required)

Source: UBS Annual Report 2013, page 229

* FINMA capital requirements

- = Total capital ratio (fully applied)
- = CET1 capital ratio (fully applied)
- = Phase-in leverage ratio: Phase-in CET1 + LAC
  Total IFRS assets +/- adjustments
- = Fully applied leverage ratio: Fully applied CET1 + LAC
  Total IFRS assets +/- adjustments
Switzerland's preferred resolution strategy for its G-SIBs

Crisis Management College under the lead of the Swiss Financial Market Supervisory Authority FINMA has adopted a single point of entry bail-in strategy as preferred resolution strategy

**Resolution**
- Conducted by **FINMA** in close cooperation with foreign regulators; bank management suspended

**Recapitalization** (preferred option)
- Group bail-in
  - Financial stability safeguarded

**Restructuring**
- Break-up
  - Sales of assets and business lines

**Critical Operations**
- → Bridge bank / Wind-down

**Conversion of low trigger Cocos to common equity**

**Conversion of high trigger contingent convertible capital to common equity**

**Disposals**

**Other recovery measures** (Recovery Plan)

**Liquidation**
- Orderly wind-down of residual activities

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Source: FINMA Annual Report 2013
UBS legal structure changes

UBS has made decisive and proactive steps in response to key regulatory drivers associated with the TBTF agenda to move toward a resolution robust organizational structure.

### Current legal entity structure

- **UBS AG**
- **UBS Americas Inc**
- **UBS Ltd (UK)**
- **Other subs**

### Mid 2016 legal entity structure

- **UBS Group AG**
  - Planned new, enables bail-in resolution strategy
- **Re-capitalization**
  - (Bail-in)
- **Restructuring**
  - (Break-up)

### Announced changes

#### Switzerland
- **New Swiss banking subsidiary by mid 2015, incl. Retail, Corporate and Wealth Management (BC CH) businesses**
- **Holding company to be formed through share-for-share exchange offer to be launched in 2014**

#### UK
- **Increased self-sufficiency of UBS Limited**
- **UBS AG to increase capitalization of UBS Limited during 2Q14**

#### US
- **Required to establish an intermediate holding company (IHC) by 1 July 2016**
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