

Can Global Finance Survive Nationalization, Regulation and Reform?



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Tuesday, April 28, 2009
2:30 PM - 3:45 PM

Speakers:

James Robinson III, General Partner, RRE Ventures

Leon Wagner, Chairman, GoldenTree Asset Management

Peter Weinberg, Partner, Perella Weinberg Partners

Meredith Whitney, Founder, Meredith Whitney Advisory Group LLC

Moderator

Paul Calello, CEO, Investment Bank, Credit Suisse

World financial structure

2007	Stock market capitalization	Bonds outstanding	Bank assets	Bonds, equities and bank assets	
	Share of total financial assets			US\$ billions	Percent of GDP
World	25	31	44	256,387	469.7
Euro Area	13	28	60	82,582	677.9
United States	30	46	24	65,516	474.5
Japan	19	38	43	23,960	546.8
Emerging market					
Asia	46	14	39	19,457	337.8
Latin America	32	28	39	7,176	198.9
Middle East	48	4	48	2,741	195.8
Africa	53	8	39	1,978	179.8
Europe	28	26	46	2,804	153.0

Sources: International Monetary Fund, World Bank, S&P Global Stock Markets Factbook, Bank for International Settlements, Milken Institute.

Trillion dollar banks worldwide

2008



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	Name	Assets (US\$ trillions)	Country
1	Royal Bank of Scotland	3.50	U.K.
2	Deutsche Bank	3.07	Germany
3	Barclays	2.99	U.K.
4	BNP Paribas	2.90	France
5	HSBC	2.53	U.K.
6	Credit Agricole	2.31	France
7	JPMorgan Chase	2.18	U.S.
8	Japan Post Bank	2.12	Japan
9	Citigroup	1.94	U.S.
10	Mitsubishi	1.93	Japan
11	UBS	1.89	Switzerland
12	Bank of America	1.82	U.S.

	Name	Assets (US\$ trillions)	Country
13	Lloyds	1.62	U.K.
14	Social Generale	1.58	France
15	Mizuho	1.55	Japan
16	Banc Santander	1.46	Spain
17	Credito Italiano	1.46	Italy
18	ICBC	1.43	China
19	Allianz	1.33	Germany
20	Wells Fargo	1.31	U.S.
21	Sumitomo Mitsubishi	1.12	Japan
22	China Construction Bank	1.11	China
23	Credit Suisse	1.10	Switzerland
24	Bank of China	1.02	China

Sources: Bloomberg, Milken Institute.

World stock markets

As of April 15, 2009



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Apr 15, 2009	Market Capitalization (US\$ billions)	YTD percent change	Percent of world	Percent of GDP
United States	9,916.7	-6.5	31.5	127.9
Japan	2,942.8	-9.9	9.3	103.9
United Kingdom	1,947.2	-2.4	6.2	148.4
China	2,542.3	43.2	7.8	136.0
Hong Kong	1,475.1	11.0	4.4	1,283.8
Germany	1,028.9	- 4.5	3.3	66.9
World	31,520.9	-1.9	100	111.97

Source: Bloomberg.

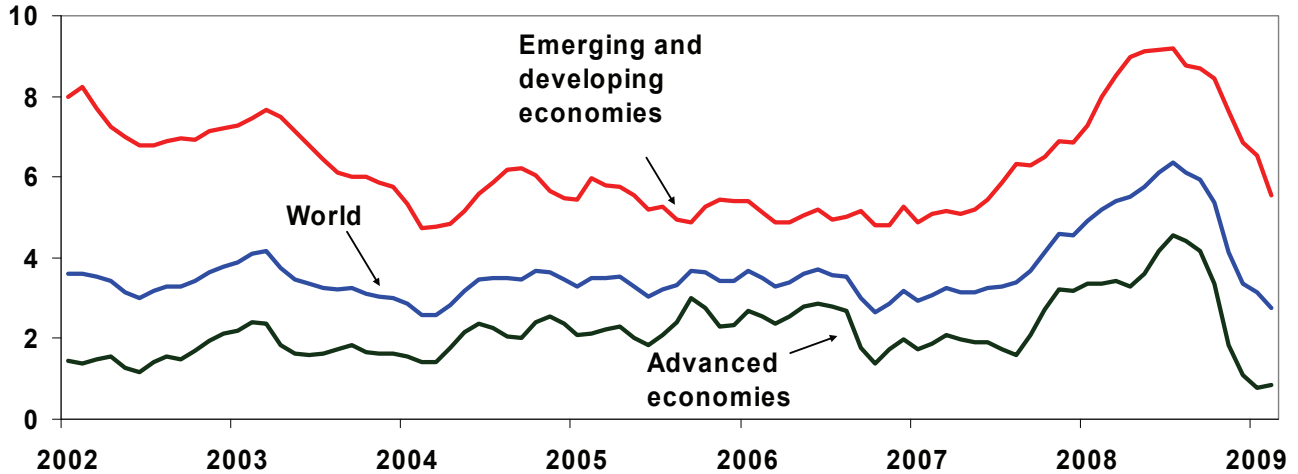
Global inflation

From 2002 to 2009



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Percent change, year-to-year



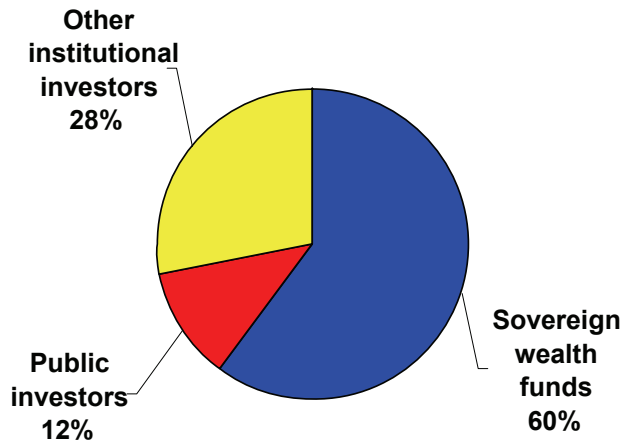
Source: World Economic Outlook, International Monetary Fund, April 2009.

Worldwide capital raised by source

July 2007–July 2008

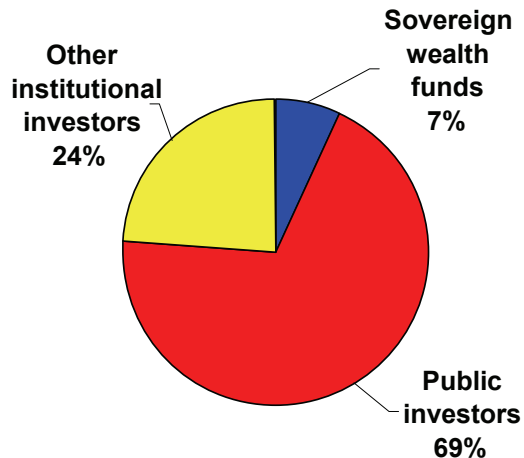
July 2007–December 2007

Total = \$56 billion



January 2008–July 2008

Total = \$300 billion

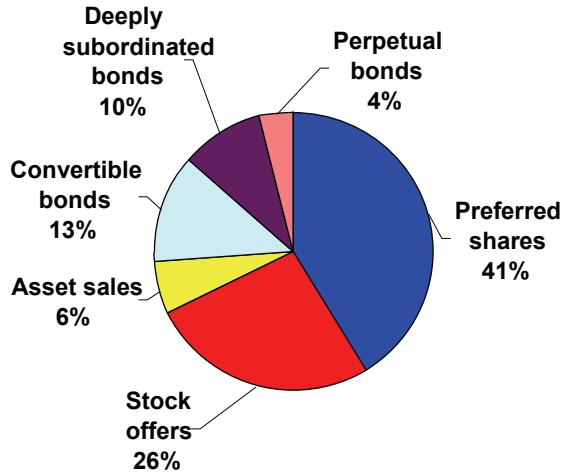


Sources: International Monetary Fund, Milken Institute.

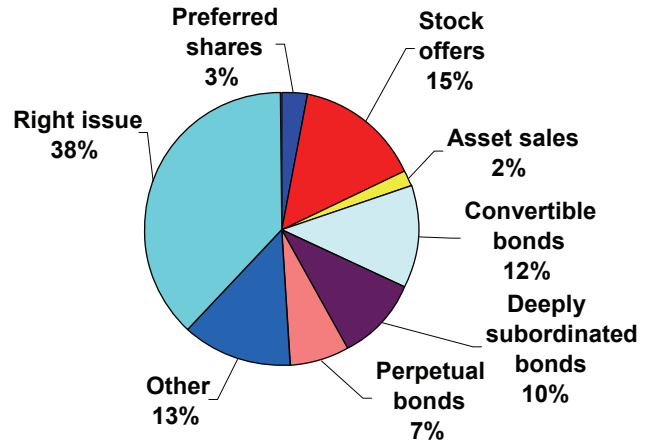
Worldwide capital raised by type of instrument

July 2007–July 2008

North American Banks
Total = \$178 billion



European Banks
Total = \$153 billion

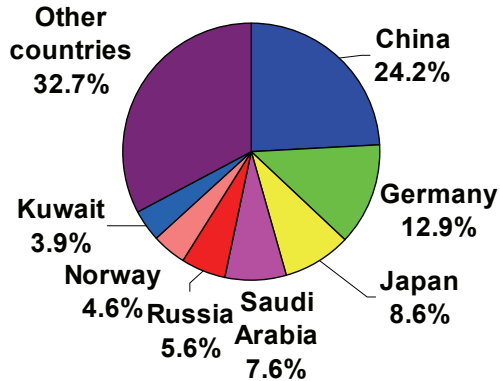


Sources: International Monetary Fund, Milken Institute.

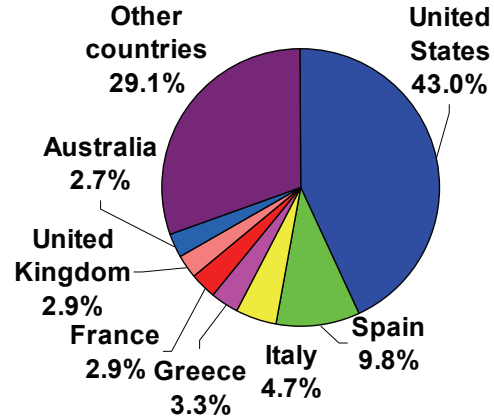


Major exporters and importers of capital

Major exporters of capital, 2008



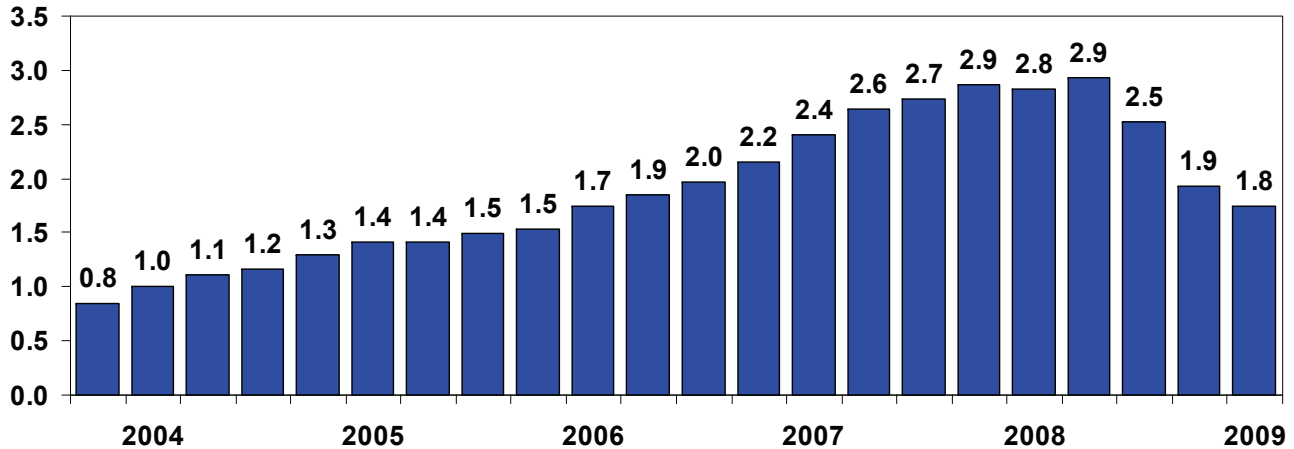
Major importers of capital, 2008



Sources: International Monetary Fund, Milken Institute.

Worldwide hedge fund assets decrease by 40 percent since Q2 2008

US\$ trillions



Sources: Hedgefund.net, Milken Institute.

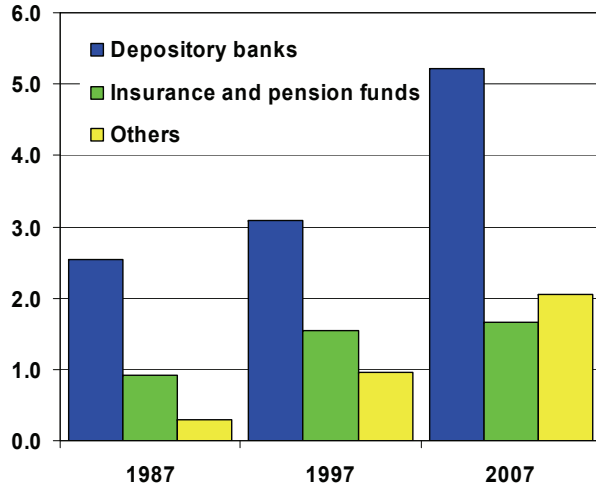
Size of financial assets

In percent of GDP

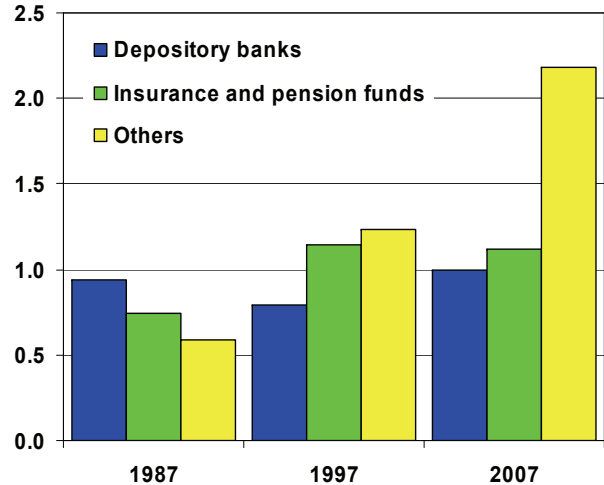


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United States



United Kingdom



Sources: International Monetary Fund, Milken Institute.

Global over-the-counter derivative markets

June 2008



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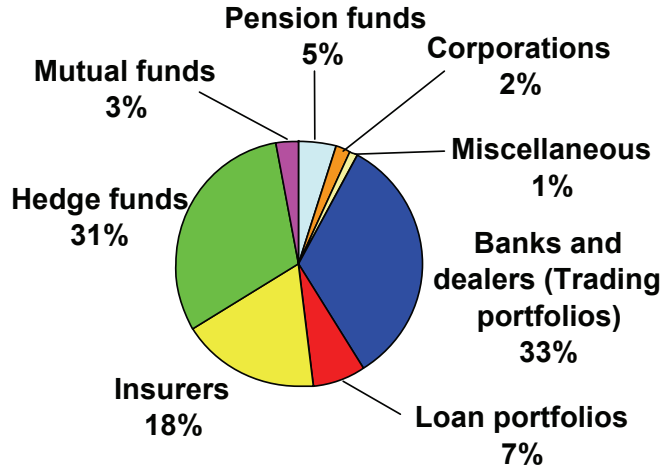
US\$ billions	Notional amounts	Gross market values
Foreign exchange contracts	62,983	2,262
Interest rate contracts	458,304	9,263
Equity-linked contracts	10,177	1,146
Commodity contracts	13,229	2,209
Credit default swaps	57,325	1,283
Total OTC derivatives	683,725	20,353

Source: Bank of International Settlement.

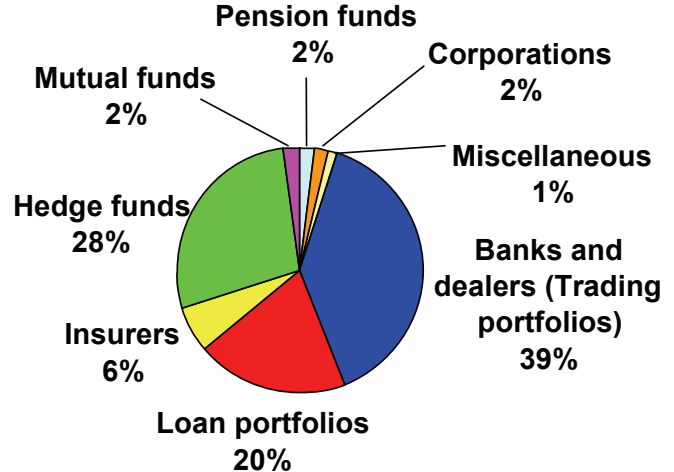
Participants in credit derivative market

March 2007

CDS buyers of protection

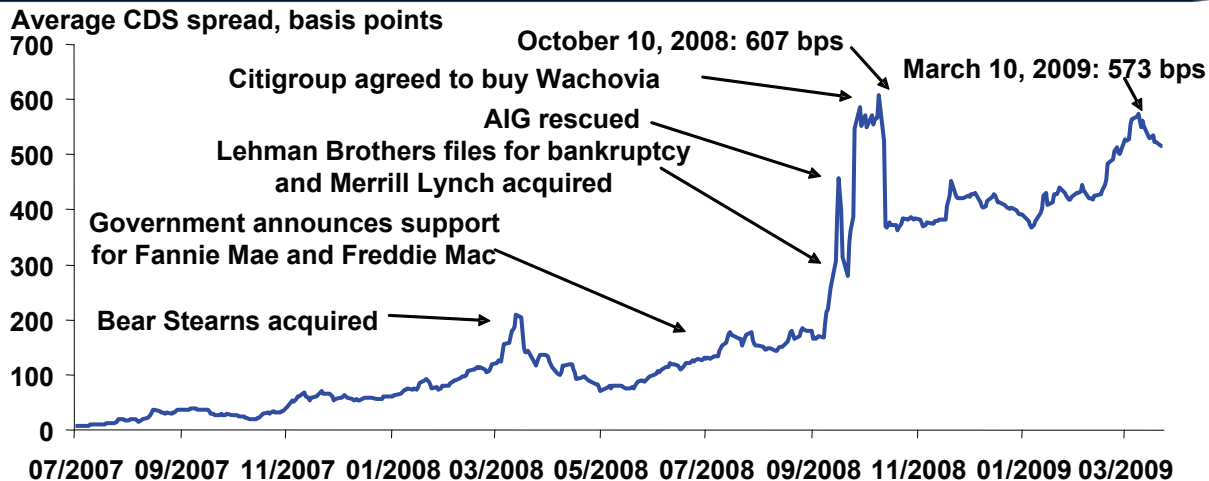


CDS sellers of protection



Source: Bank for International Settlements.

Counterparty risk increases

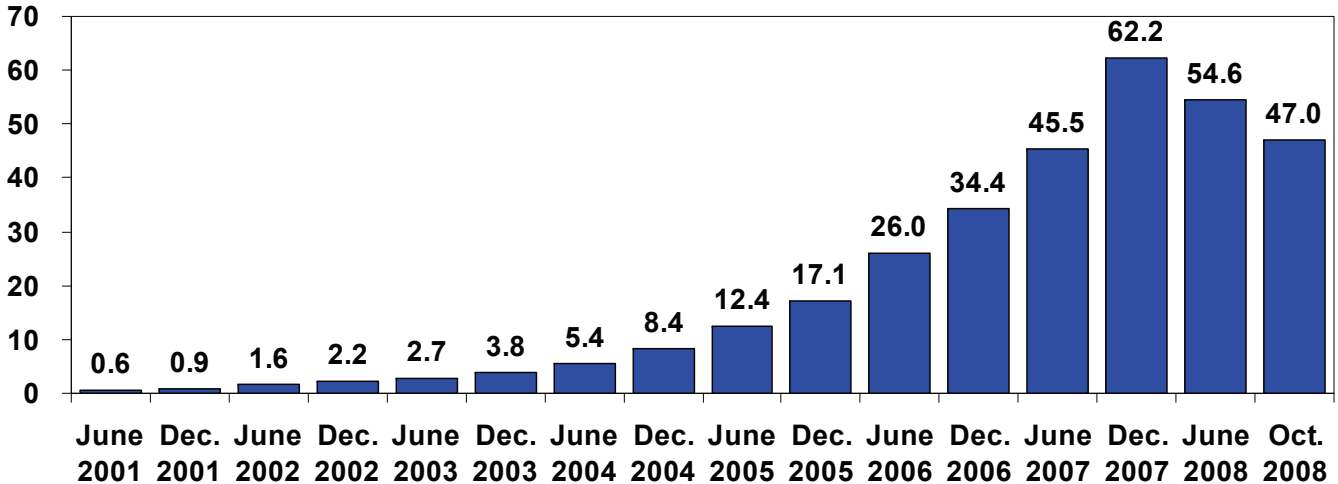


Note: Counterparty Risk index averages the market spreads of the credit default swaps (CDS) of fifteen major credit derivatives dealers, including ABN Amro, Bank of America, BNP Paribas, Barclays Bank, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs Group, HSBC, Lehman Brothers, JPMorgan Chase, Merrill Lynch, Morgan Stanley, UBS, and Wachovia.

Sources: Datastream, Milken Institute.

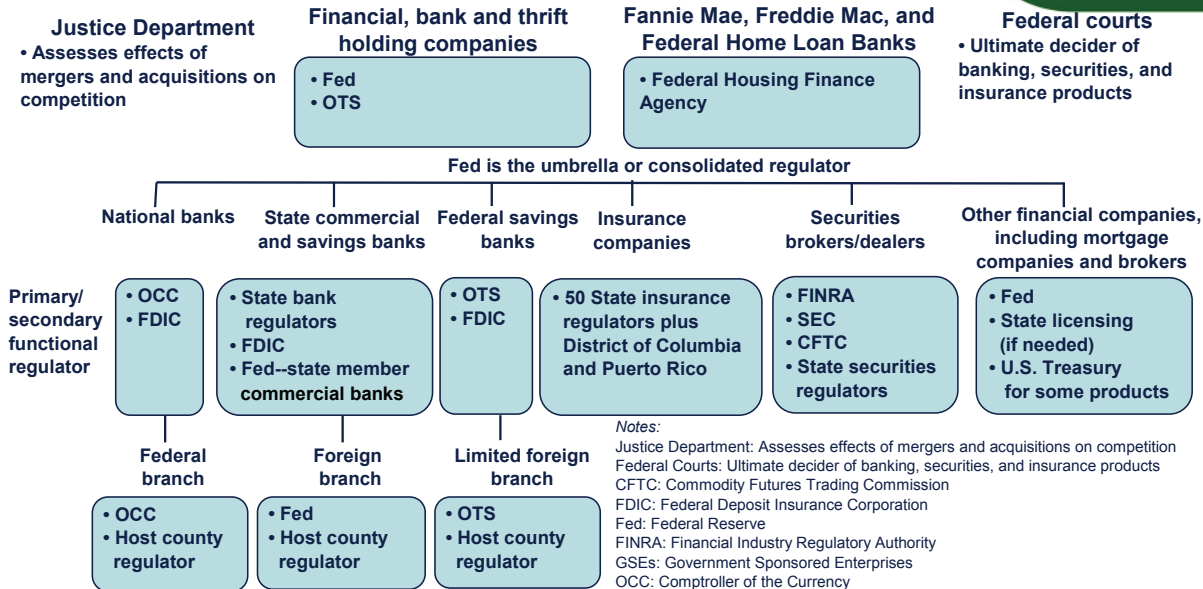
Rising risk: The credit default swap market roughly doubled each year from June 2001 through Oct. 2008

Notional amount of credit default swaps outstanding, US\$ trillions



Source: International Swaps and Derivatives Association, Milken Institute.

The U.S. regulatory regime: In need of reform?



Notes:
 Justice Department: Assesses effects of mergers and acquisitions on competition
 Federal Courts: Ultimate decider of banking, securities, and insurance products
 CFTC: Commodity Futures Trading Commission
 FDIC: Federal Deposit Insurance Corporation
 Fed: Federal Reserve
 FINRA: Financial Industry Regulatory Authority
 GSEs: Government Sponsored Enterprises
 OCC: Comptroller of the Currency
 OTS: Office of Thrift Supervision
 SEC: Securities and Exchange Commission

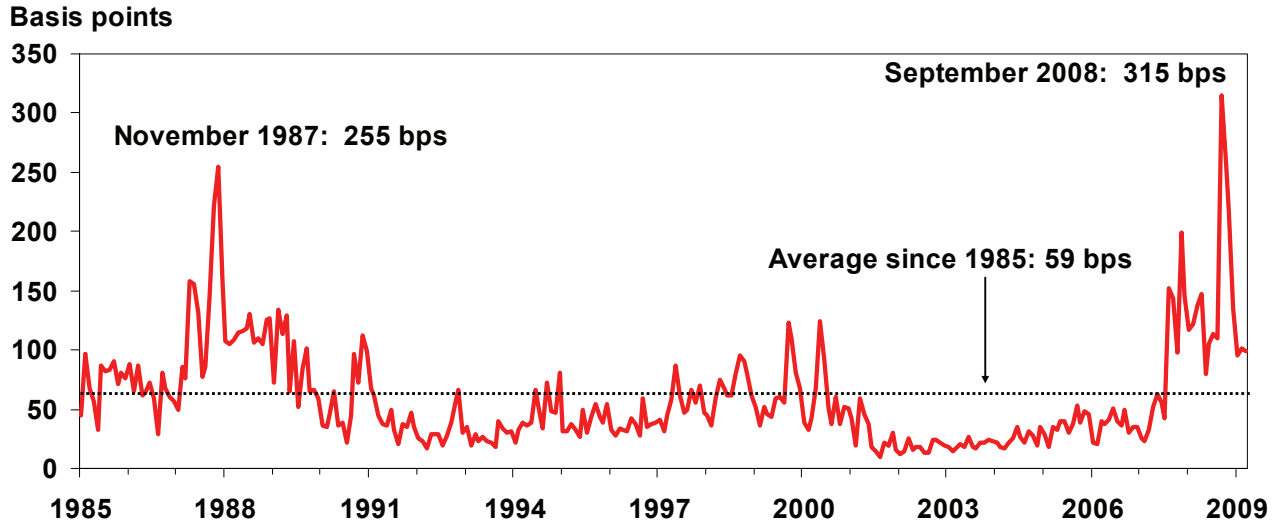
Sources: Financial Services Roundtable (2007), Milken Institute.

TED Spread reached historical high in 2008

Monthly, January 1985—March 2009



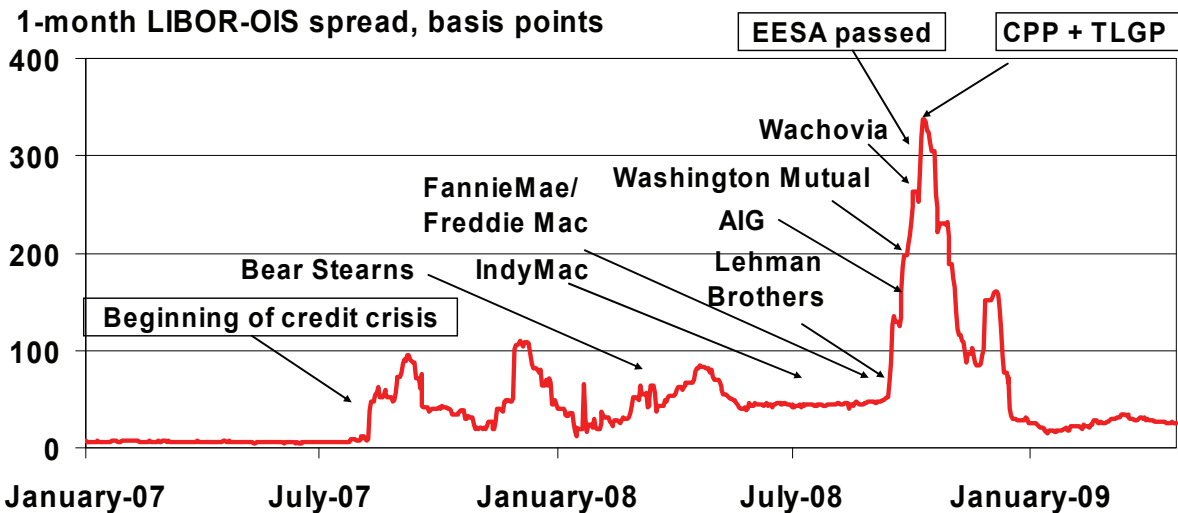
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Sources: Bloomberg, Milken Institute.

Market for liquidity freezes

Spread between 1-month LIBOR and OIS



Note: LIBOR: London Interbank Offered Rate; OIS: Overnight indexed swap.

Sources: Bloomberg, Milken Institute.

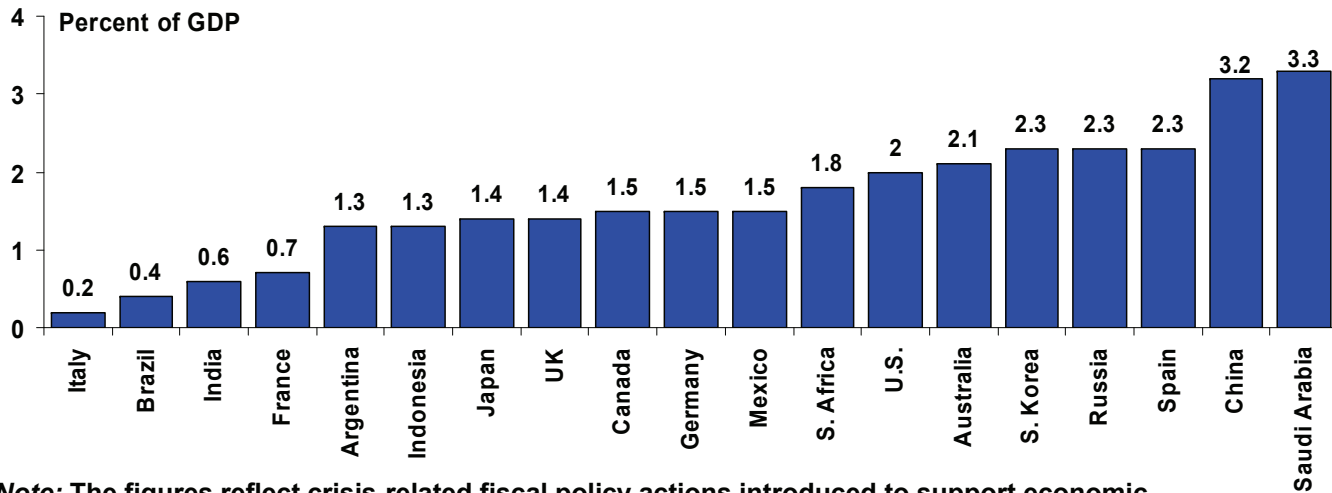
EESA:
Emergency
Economic
Stabilization
Act.

CPP:
Capital
Purchase
Program

TLGP:
Temporary
Liquidity
Guarantee
Program

G-20 fiscal stimulus in 2009

Many countries have announced plans for a sizable fiscal stimulus

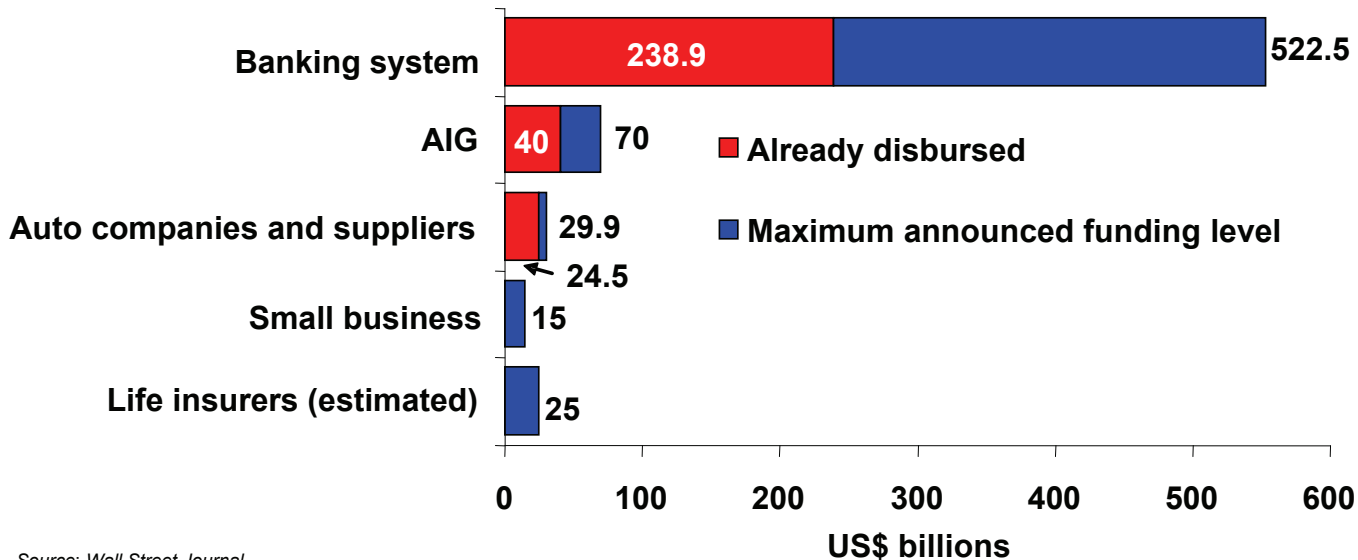


Note: The figures reflect crisis-related fiscal policy actions introduced to support economic activity. These discretionary measures are compared to 2007 (the pre-crisis base line).

Source: Group of Twenty, International Monetary Fund, March 2009.

TARP allocated so far

Status of Troubled Asset Relief Program funds as of March 27, 2009

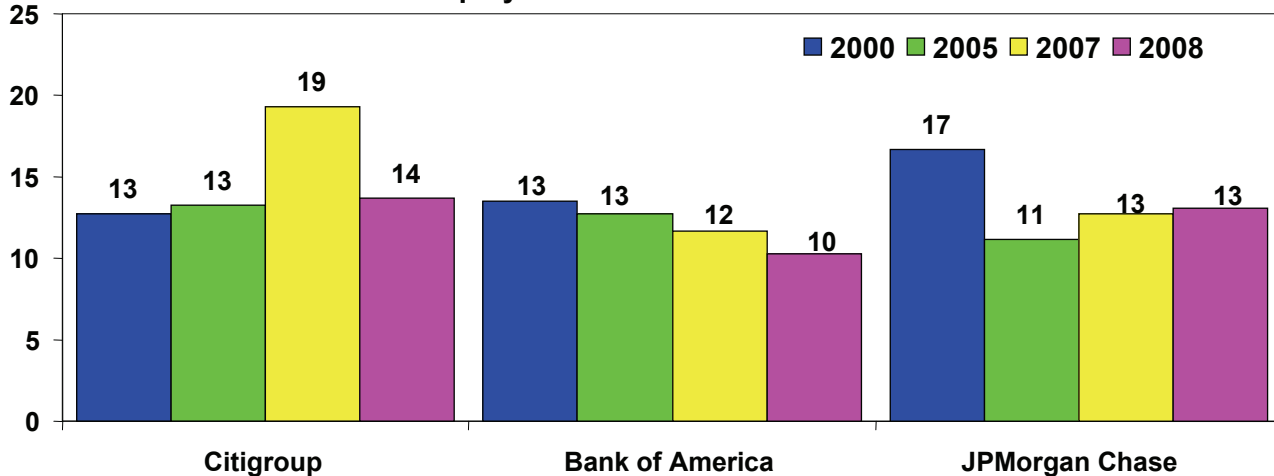


Source: Wall Street Journal.

Too much dependence on debt?

Leverage ratios at bank holding companies

Total assets/total shareholder equity

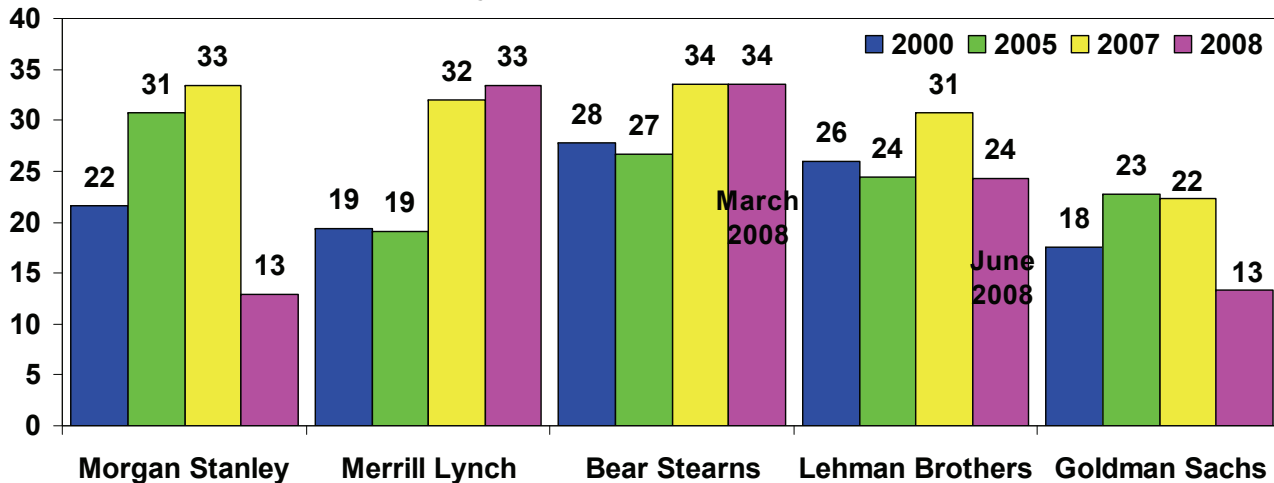


Sources: Bloomberg, Milken Institute.

Too much dependence on debt?

Leverage ratios at biggest investment banks

Total assets/total shareholder equity

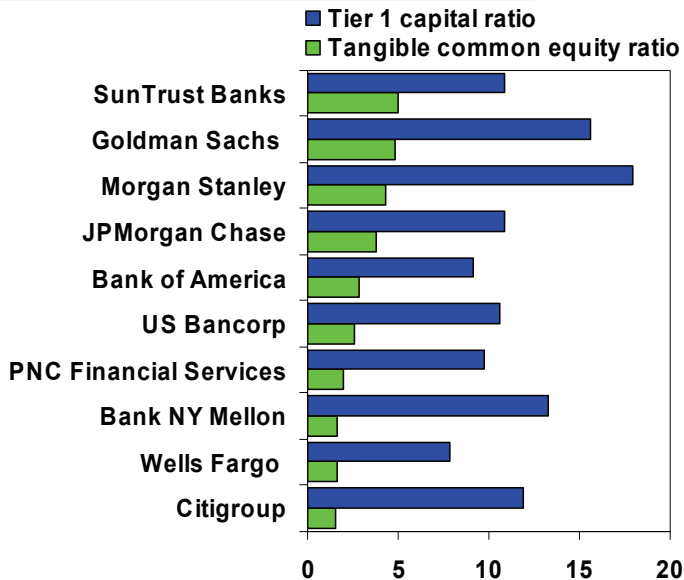


Sources: Bloomberg, Milken Institute.

A question of equity: Stress tests?

U.S. regulatory capital requirements and selected equity ratios

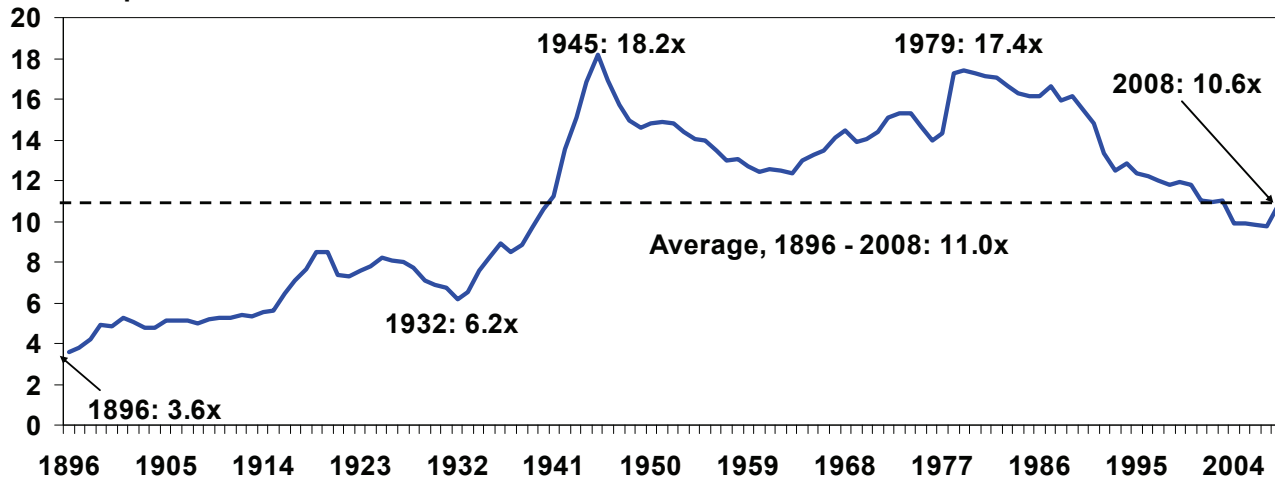
	Tier 1 leverage	Tier 1 risk-based	Total risk-based
Well capitalized	>= 5%	>= 6%	>= 10%
Adequately capitalized	>= 4%	>= 4%	>= 8%
Undercapitalized	< 4%	< 4%	< 8%
Significantly undercapitalized	< 3%	< 3%	< 6%
Critically undercapitalized	Tangible equity capital ratio that is <= 2%		



Sources: FDIC, Bloomberg, Milken Institute.

Leverage ratio for commercial banks

Asset/capital ratio



Sources: FDIC, Milken Institute.

Losses/write-downs, capital raised by financial institutions worldwide

US\$ billions, through April 10, 2009	Losses/Write-downs	Capital raised
Wachovia, United States	101.9	11
Citigroup, United States	88.3	109.3
AIG, United States	87.3	91.7
Freddie Mac, United States	81.6	51.6
Fannie Mae, United States	71.3	30.8
Merrill Lynch, United States	55.9	29.9
UBS, Switzerland	50.6	32.1
Washington Mutual, United States	45.3	12.1
Bank of America, United States	42.7	78.5
HSBC, United Kingdom	42.2	23.7
Others	621	633.2
Grand total	1,288.1	1,103.9

Sources: Bloomberg, Milken Institute.