A Business-Friendly Solution to Resolving Banks Too-Big-To-Fail (TBTF)

Recovery resolution fund (ReRefund)

[15th October 2020]

Recovery Resolution Fund
A Strategic Structural Reform Partner

Chapter 1Introduction 3
Chapter 2Economic Benefit 5
2.1ReReFund Generated Financial Stability Service (FSS) Stimulus 6
2.2Recovery Resolution Fund (ReReFund) 7
2.2.1.1ReReFund Sustainability / Public Interest Commitment (PIC) 7
2.2.2.1ReReFund Enhancing Bank Resolution Mechanism 8
2.2.3.1CASS Guaranteed Global Financial Stability Safety Net 9
2.2.4.1Financial Stability Service (FSS) Trade Protecting the Public Purse 11
Chapter 3Basel III Related Deadweight Loss (BRDL) 12
3.1Basel III 12
3.2What is Basel III Capital Requirements 12
3.3Banks Tier 1 Capital: 12
3.4Banks Tier 2 Capital: 14
3.5Banks Tier 2 Capital Technical Difference Problem 14
3.6Risk Weighted Assets (RWA): 15
Chapter 4Deadweight Loss: 17
4.1Basel III Related Deadweight Loss (BRDL) Computations 18
4.2BRDL Cost 18
4.3BRDL Unintended Costs 20
4.4BRDL Increases Cost of Bank failure on Public Purse 20
Chapter 5Inequality of Opportunity / Over Banked vs Unbanked: 21
5.1Securities/ Financial Markets Infrastructure Investment Impact 22
5.2BRDL Social Impact 22
5.3BRDL Untreated Environmental Impact 22
Chapter 6Impediments Preventing Banks' Resolvability 23
6.1Economic Impediment 23
6.2Political Impediment (PI) "Groupthink" 24
6.2.1.1Milgram Obedience Experiment 24
6.2.2.1Five Monkeys Experiment 25
Chapter 7Legal Framework 25

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Chapter 1 Introduction

This paper is written in response to the Financial Stability Board (FSB) need to address what "FSB evaluation finds too-big-to-fail (TBTF) reforms made banks more (i) resilient and (ii) resolvable, but gaps need to be addressed".

This paper presents a technical problem "Basel III Related Deadweight Loss (BRDL)" as the root cause, that is undermining the productivity of the banking industry; increasing the cost on banks creates social inequality[1]; undermining market confidence in the overall recovery and resolution process and is responsible for adding extra cost to resolving a bank, an economic impediment in itself preventing the resolvability of a failed bank.

Basel III Related Deadweight Loss (BRDL), is a systemic problem affecting banks that are subject to Basel III Capital Adequacy Ratio (CAR) affecting ALL banks with over US$50billion in assets. BRDL impacts on average 6% of banks total assets. Its' removal is worth just under US$200 Billion per year to the banking industry, in the form of a financial stability service (FSS) stimulus trade booked to bank parent company balance sheets.

As a solution to BRDL, this paper presents a new line of business called the Financial Stability Service (FSS) Industry, along with a proposed road map how to implement this new business friendly solution into the market.

An extensive review of the market has identified Barclays Delaware (Barclays Bank USA Credit Card Business) and HSBC USA as the best suitable bank entities to run in test[2] with the relevant parent company.

Due to the highly sensitive nature of the FSS proposal, the testing needs a controlled environment across two legal jurisdictions and covering two legal entities before rolling it out to support the global banking industry. The FSS Trade itself is passed and settled internally – to remove/ reduce operational risk, banks inhouse Prime Brokerage Teams are commissioned to provide all day-to-day frontline operational support required.

The aim is to get a temporary three-month trading permit to run the FSS Trade in "testing environment" and allow for it to operate under normal conditions. To protect the bank and ensure, no unnecessary loss to the bank, all monthly FSS Trade fees due to ReReFund over this 3month period will be held in an escrow account until full authorisation.

[1] Since 2008 – In the UK between 20% - 40% of the population no longer have local access to affordable financial service Please see section on Bank Branch Closure

[2] Please refer to the Chapter "Testing Environment" for further details

The 3month open period will allow authorities and market participants time to collate much needed data to make an informed decision about/ before giving full authorisation[3] or withdraw authorisation.

In which case, banks would book one FSS Reversal trade out, in the case of HSBC USA this booking will be used to close out the eight (8) posted financial stability services (FSS) trades booked inhouse. In effect, booking the same reversal inhouse trade would be required to close out a failed bank or if HSBC parent company sold off its USA entity in the real world.

The advantage to parent company, like HSBC selling or wanting to dispose of these entities without Basel III Related Deadweight Loss (BRDL) – is the difference between the bank selling distressed asset that annually loss money or selling assets that generate a BRDL Risk-free Revenue.

However, before FSS Trade can get to the testing environment stage, the banks themselves will need to perform an independent due diligence inhouse on the (i) proposed economic benefits reported and confirm – from the recovery resolution plan teams (ii) Inhouse PB Teams can provide the Operational Support FSS Trades requires. An additional requirement is to get legal clarification on the legality of the FSS Industry proposal[4] needs to come from a law firm.

In the case of HSBC, the inhouse due diligence will involve covering a minimum of three steps (1) Recovery Resolution Plan Team to confirm the presence of Basel III Related Deadweight Loss (BRDL) (2) PB Finance Team, to review and confirm the FSS Trade Cost vs Benefit (3) PB Team to confirm able to provide Operational Support for FSS Trade.

In the case of Barclays Bank reviewing Barclays Delaware – its due diligence costs are expected lower. The expected cost to the HSBC is expected to be under US$100,000, and for HSBC to get Allen&Overy, the law firm responsible for overseen HSBC ring-fencing, under US$100,00.

A key requirement from the Financial Stability Board (FSB) considering the US$200 Billion potential benefit vs US$200,000 cost. To allow for the FSB to make an informed decision it would be helpful if it provided direction and support towards HSBC/ Barclays getting due diligence report.

Especially considering that what is at stake here is something much bigger than simply solving TBTF – what we are doing in effect is laying down the foundation on which the 21st Century Economy will be built on. To that end, the new structure must directly benefit society, be environmentally friendly and the one thing it CANNOT be, is a burden on our banks.

[3] An annual review before giving authorisation

[4] Please Refer to the Chapter "Legal Framework" for further details

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Chapter 2 Economic Benefit

In 2009, Lord Turner than Chairman of the Financial Service Authority (FSA) gave a speech in Mansion House warning, that we should not throw the financial service baby out with the bathwater.

Today the global banking industry is throwing the baby out with the bathwater and losing just under US$500million per day or US$200Billion per year in Basel III Related Deadweight Loss (BRDL)- Lost Opportunity Cost.

Basel III Related Deadweight Loss (BRDL) is a systemic problem that is affecting all banks that hold over US$50billion Assets.

The below diagram shows first shows the three steps, the first one is the actual costs that banks are currently carrying on their balance sheet, along with the two benefits that become available to banks booking FSS Trade. (1) Basel III Related Deadweight Loss (BRDL) Cost each bank is experiencing (2) FSS Risk -Free "Board&Lodge" Revenue each bank can expect. And (3) Financial Stability Service (FSS) Stimulus, is the total benefit to each banks balance sheet per US$Million of Total Assets Held.

Strategically Important Tangible Asset (SITA)	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000
SITA PERCENTAGE OF BANKS TOTAL ASSETS	6.03%	8.07%	5.37%	4.16%	2.90%	4.09%
	TOP20 USA BANK AV	JPMORGAN	CITIBANK	BBVA USA	BARCLAYS Delaware	HSBC USA
1.) BASEL III RELATED DEADWEIGHT LOSS (BRDL)COST: Per $Million of SITA Held	-$158.00	-$161.42	-$101.94	-$74.95	-$90.04	-$175.92
2.) FSS RISK FREE "Board&Lodge" REVENUE Per $Million of SITA Held	$10,171	$11,810	$10,550	$19,018	$3,864	$5,611
3.) FINANCIAL STABILITY SERVICE (FSS) STIMULUS: Per $Million of SITA Held	$46,495	$53,990	$48,230	$86,938	$17,664	$25,651

In the case of the test: HSBC USA - Basel III Related Deadweight Loss (BRDL) cost is directly impacting 4.09% of the bank's total assets. BRDL Cost to the bank, per US$Million is US175.

The direct benefit ReReFund services offers the bank is US$5,611 in FSS Risk -Free "Board&Lodge" Revenue and US$25,651 Financial Stability Service (FSS) Stimulus worth per US$Million of SITA (Strategically Important Tangible Assets)

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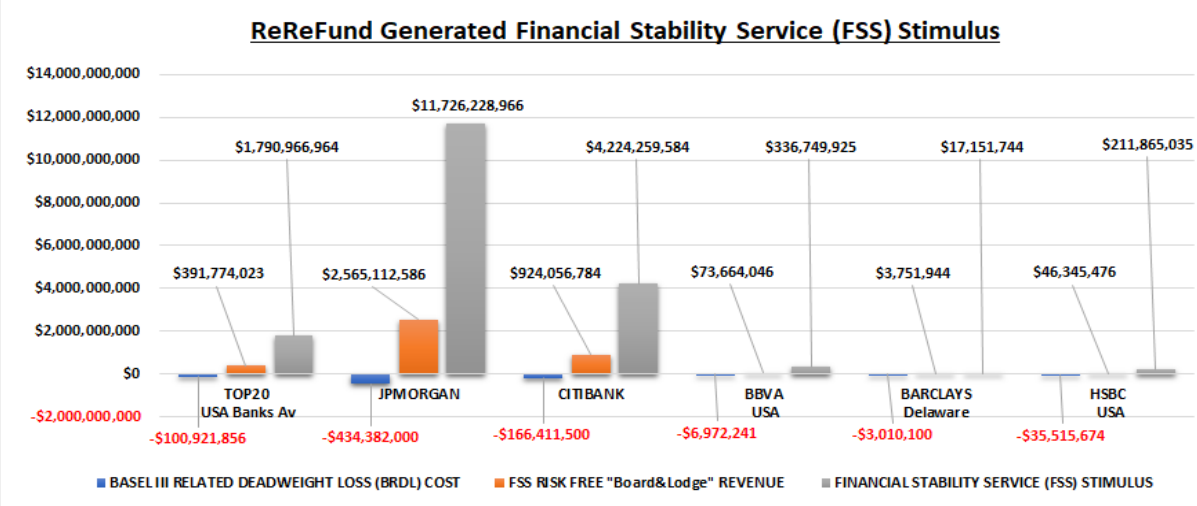
2.1 ReReFund Generated Financial Stability Service (FSS) Stimulus

The below diagram shows, how conservatively calculated ReReFund would Generate between US$200billion and US$300billion per year worth of Financial Stability Service (FSS) Stimulus (80%) to the global banking industry, that includes FSS Risk-Free "Board&Lodge" Revenue (20%) between US$40billion to US$60billion per year.



HSBC USA is losing US$35.5million annually. Booking the FSS Trade, would be worth US$46.3million in Risk Free "Board&Lodge" Fees – plus an additional US$212million – In test case proposed, the Financial Stability Service (FSS) Stimulus directly improving HSBC Parent Company Capital Adequacy Ratio (CAR)[5]

Financial Stability Service (FSS) Risk Free "Board&Lodge" Fee / Revenue is based at 20% of the market rate costs of the asset to the parent company. Consider the market rate to rent a room was US$100 a month, but the parent charge US$20. The main benefit derived by the parent company is that the assets are free of BRDL.

By allowing banks to apply this discount rate, the remaining 80% of the value goes towards improving the underlining assets value and help reduce the cost of bank failure. But the greater benefit comes from increasing market confidence.

[5]https://www.investopedia.com/terms/c/capitaladequacyratio.asp#:~:text=Currently%2C%20the%20minimum%20ratio%20of,and%2010.5%25%20under%20Basel%20III.&text=Minimum%20capital%20adequacy%20ratios%20are,and%20consequently%20lose%20depositors'%20funds.

2.2 Recovery Resolution Fund (ReReFund)

The Recovery Resolution Fund (ReReFund) is white knight stability fund, a hybrid that is based on a sovereign wealth fund aims and a quantitative Fund's procedures. The company is a private entity that operates in the public interest mitigate Basel III Related Deadweight Loss (BRDL)

ReReFund forms strategic partnership with specialist service providers companies. The company requires low-maintenance specialised services.

In the case of ReReFund's open FSS Trades, once booked the trade will require its market-mark be done once a month. As part of the banks' month-end process, the new price will be marked - cash will be moved accordingly and fees will be settled.

1) Specialist Independent Consultant/ Management Consultant Firms
2) Law Firm -
3) Banks Prime Brokerage (PB) – To provide all Operational Service Support
4) CRM System - STAGE 3
5) Social Mobility Partners – STAGE 3
6) Environmental Partners– STAGE 3

ReReFund -procedurally requirement from Banks Prime Brokerage Support Teams shouldn't take more than 30minutes per month.

ReReFund rollout is based on an outsourcing all functions to specialist service provides. Whilst this is an expensive growth strategy to adopt, it is the right one for ReReFund.

STAGE 1 – implement the rollout of FSS Trade to support the primary market banks

STAGE 2 – Implement the rollout pf FSS Trade to support the secondary market banks

Note: STAGE 1 and STAGE 2 is expected to take 0- 24 months

STAGE 3 – ReReFund will require all the FSS Trades are opened, banks will provide standard client intranet reporting tool. By having all the banks dealing in the same trade – pulling in this data to build out ReReFund CRM System. Along with establishing partnership with Social Mobility and Environmental organisations will take between 24- 36months. All monies will be segregated and held in Escrow account until such time; after all banks are safe: Please see below for additional information on Public Interest Commitment (PIC)

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2.2.1.1 ReReFund Sustainability / Public Interest Commitment (PIC)

Most investment fund etc have marketing departments, ReReFund replaces traditional market department. The below diagram shows how Recovery Resolution Fund (ReReFund) commits 60% of its income towards promoting sustainability and supporting the company's wider Public Interest Commitment (PIC).

FSS RISK FREE "Board&Lodge" REVENUE: Per $Million of Banks Total Assets Held	$613	$953	$566	$792	$112	$230
A.) ReReFund PUBLIC INTEREST COMMITMENT (PIC): Economic,Social, Environmental (ESE) Benefits TOTAL	TOP20 USA BANK AV	JPMORGAN	CITIBANK	BBVA USA	BARCLAYS Delaware	HSBC USA
1.) SharePurchaseScheme "Skin-in-the-game" - 25%	$31	$48	$28	$40	$6	$11
2.) Social Mobility - Split Home (80%) Dev (20%) - 20%	$25	$38	$23	$32	$4	$9
3.) Environmental - Split Green (50%) Blue (50%) - 15 %	$18	$29	$17	$24	$3	$7
TOTAL: White Knight Stability Fund: Legal Requirements / Good Causes	$73.60	$114.39	$67.93	$95.03	$13.47	$27.55
BASEL III RELATED DEADWEIGHT LOSS (BRDL)COST: Per $Million of Banks Total Assets Held	-$9.53	-$13.03	-$5.47	-$3.12	-$2.62	-$7.20
B.) PUBLIC INTEREST COMMITMENT (PIC) MULTIPLIER	772.46%	877.97%	1241.92%	3044.67%	514.96%	382.76%

It is worth noting, that HSBC USA, lost US$7.20 in Basel III Related Deadweight Loss. Removing BRDL HSBC can expect earn US$230 and be responsible for contributing US$27.55 to good causes per US$ Million of the Banks Assets.

Recovery Resolutions Fund (ReReFund) Three Fundamental Principals

1) Share Purchase Scheme "Skin-in-the-game"- ReReFund commits 25% of future revenue earned from banks to support its clients share price. ReReFund remains a neutral supporter of all banks; all voting rights acquired, are used in support of that bank's management team voting preference. ReReFund places a restriction on its share purchase to under 9% - after that income diverted towards supporting social housing in the home country. To this cause, ReReFund expects to generate: US$11 per US$ Million of Bank Total Assets.
2) Social Mobility – ReReFund commits 20% of future revenue earned from banks in support of its Public Interest Commitment (PIC). This money is split 80/20 between home/ developing country. 80% of the funds are allocated to the banks home country – and used to support frontline organisation involved in (I) Homeless / Youth Empowerment Projects. The remaining 20% is administered into a development fund – and used to support frontline organisation involved in (ii) Women Empowerment Projects iii) Education / Street Children. To this cause, ReReFund expects to generate: US$9 per US$ Million of Bank Total Assets.

3) Environmental – ReReFund commits 15% of future revenue earned from banks to promote Sustainability supporting/funding frontline organisation (I) Green Projects (Land Based) (ii) Blue Projects (Sea/ Coastal Projects). To this cause, ReReFund expects to generate: US$7 per US$ Million of Bank Total Assets.

Note: Social Mobility and Environmental Monies will be segregated and held in Escrow account until such time; after all banks are safe: 24- 36months

2.2.2.1 ReReFund Enhancing Bank Resolution Mechanism

The primary aim behind authorities using resolution tools is to safeguard public interests, this includes ensuring the (i) continuity of banks critical functions and (ii) maintaining financial stability at (iii) minimal costs to the taxpayer. Once the bail-in tool has been used, there are currently three different tools available to authorities to resolve a failed bank.

1) Sale of Business Tool- allows for the total or partial disposal of the entity's business
2) Bridge Bank Tool – part of the entity is transferred to a temporary entity, which is totally or partially public owned.
3) Asset Separation Tool – Assets, Rights or Liabilities can be transferred to an asset management vehicle, which is totally or partially public owned.

A working paper recently released by the European Bank of Reconstruction and Development (EBRD)[6] found that all three tools were equal. And that the effectiveness of resolution mechanisms depends crucially on the timing and severity of the crisis. The study found that in the event of severe crisis, mechanisms aimed at restructuring bank balance sheet were most likely to deliver positive results.

There is a law that supports EBRD research findings on the importance of timing been critical in the resolution process; the law states, all risk mitigations steps must be taken in advance; pre-emptively done. These new legal requirements introduced are in line with the building industry's perspective, which has more experience in fire-fighting, especially in its use of fire sprinklers, provides a lesson in how to contain financial contagion[7].

A fundamental problem identified by ReReFund research is having three different resolutions tools in play undermines market confidence. Applying probability theory, a one-in-three on potential outcome undermines market confidence in the resolution process itself, which is not only against the overall aim of the resolution process itself but is in direct conflict with Basel Committees harmonization policy.

ReReFund enhances banks' resolution mechanism by providing; a pre-empt Asset Separation Tool services to the banking industry.

[6] https://www.ebrd.com/publications/working-papers/new-bank-resolution-mechanisms
[7]https://en.wikipedia.org/wiki/Financial_contagion#:~:text=Financial%20contagion%20refers%20to%20%22the,spreads%2C%20and%20capital%20flows%22.

The role of ReReFund is to provide a credible second-line of defence like a "fire-sprinkler" reduces a building's fire insurance premium. ReReFund pre-emptive action improves the overall banking industry's productivity by reducing costs and installs market confidence, currently lacking in the overall banking resolution process itself. **Please refer to ReReFund Generated Financial Stability Service (FSS) Stimulus**

The fact that the FSB is open to consultation, confirms there to be an opportunity to enhance "Banks Resolution Mechanism".

2.2.3.1 Market Potential/ CASS Guaranteed Global Financial Stability Safety Net

The below diagram provides an overview of ReReFund CASS Guaranteed Global Financial Stability Safety Net.

To improve market confidence, the proposal is based on using established market practises that comes with legal certainty to use the market to first protect Global Systemically Important Banks (G-SIBs) - primary market participants. And then use G-SIBs to protect Domestically Systemically Important Banks (D-SIBs) secondary market participants.

The proposal is to set-up two financial stability funds (RE1) Recovery Resolution Fund (Global) primary market and (RE2) Recovery Resolution Fund (Domestic) to serve the secondary market participants.

ReReFund will use its two different legal entity identifier (LEI) codes; Downstream there are many advantages of having a two funds set-up when it comes to operational management, reporting. Additionally, having two funds allows for greater granular of the data and provides a better audit trail for all parties concerned. Should a RE1 vs RE2 client failing

A white knight fund, uses CAS "client money protection"

The above diagram shows how much group thinking influenced deadweight loss is costing the economy is lost opportunity costs.

2.2.4.1 Financial Stability Service (FSS) Trade Protecting the Public Purse

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Chapter 3 Basel III Related Deadweight Loss (BRDL)

This chapter identifies why and how Basel III Related Deadweight Loss (BRDL) became the root cause behind the banking industry's Too-Big-To-Fail (TBTF) problems.

Last year, Basel III Related Deadweight Loss (BRDL) cost the global banking industry conservatively US$200billion in lost opportunity costs or just under US$500million per day.

3.1 Basel III

Basel III is a set of international banking regulations developed by the Bank for International Settlements (BIS) to promote stability in the international financial system. The Basel III regulations are designed to reduce damage to the economy by banks that take on excess risk.

3.2 What is Basel III Capital Requirements

As of 2020, under Basel III, a bank's tier 1 and tier 2 minimum capital adequacy ratio (including the capital conservation buffer) must be at least 12.5% of its risk-weighted assets RWA). That combines tier 1 and tier 2 requirements—the minimum tier 1 capital ratio is 10.5%, and the minimum tier 2 is 2%. The capital conservation buffer recommendation is designed to build up banks' capital, which they could use in periods of stress.

The capital adequacy ratio (CAR) is calculated by adding tier 1 capital to tier 2 capital and dividing by risk-weighted assets. Tier 1 capital is the core capital of a bank, which includes equity capital and disclosed reserves. This type of capital absorbs losses without requiring the bank to cease its operations; tier 2 capital is used to absorb losses in the event of a liquidation – as a last resort, in other words selling the family silver.

3.3 Banks Tier 1 Capital:

Tier 1 capital is the primary funding source of the bank. Tier 1 capital consists of shareholders' equity and retained earnings—disclosed on their financial statements—and is a primary indicator to measure a bank's financial health. These funds come into play when a bank must absorb losses without ceasing business operations.

Banks Tier 1 Capital - Financial Stability Service (FSS) Stimulus Trade:

A bank booking an FSS Stimulus Trade vs ReReFund will see no impact on the banks overall Tier1 Capital level, the overall levels will remain the same.

Banks' current TIER 1 Capital Account, will have an open FINANCIAL STABILITY SERVICES (FSS) LE position against it. The overall cash position moved as part of the FSS Stimulus Trade, in the real world, acts as a form of cash segregation for the benefit for authorities. Consider a person separating his/her money on entering a casino - instead of keeping all your money in one pocket, FSS Trade is equivalent to putting a portion in a different pocket – a market average 70/30 split.

In the real world, FSS Stimulus Trade creates a NON-ENFORCEABLE Legal ring-fence around banks Tier1 Capital Reserves. What FSS Stimulus Trade does provide authorities with is an early warning report, and in this case, provides details of the banks overall cash burn rate. By comparing the figure to previous months – using historical data ReReFund would in future be able to provide a report for authorities that tracks the banks overall cash-burn rate.

In this time of COVID-19, a critical report that is useful in financial stress/ identifying market weakness before they become a problem.

The importance of such a report to Home Authorities and Host Authorities, in the case of JPMorgan, the USA authorities, would take comfort knowing the bank had an open LE Position accounting for 42% of its total Tier 1 Capital. As Host authorities to Barclays (Delaware) 8% and HSBC (USA) 16% -authorities can take comfort knowing sufficient cash was held in reserve at all times.

Please refer section on ReReFund Resolution Proposal for added benefits

3.4 Banks Tier 2 Capital:

Banks Tier 2 capital is the secondary component of bank capital, in addition to Tier 1 capital, that makes up a bank's required reserves. Tier 2 capital is designated as supplementary capital and is composed of items such as revaluation reserves, undisclosed reserves, hybrid instruments, and subordinated term debt.

When it came to banks' revaluation reserves; The Basel Committee[8] considers these "latent" revaluation reserves can be included among supplementary elements of capital since they can be used to absorb losses on a going-concern basis, provided they are subject to a substantial discount in order to reflect concerns both about market volatility and about the tax charge which would arise were such cases to be realised. A discount of 55% on the difference between the historic cost book value and market value is agreed to be appropriate in the light of these considerations.

The Committee considered, but rejected, the proposition that latent reserves arising in respect of the undervaluation of banks' premises should be included within the definition of supplementary capital. The action taken by the committee or rather the inaction, in this case, was to avoid infringing on private property rights.

Instead the Basel Committee left the "problem" concerning undervaluation of banks premises, and by extension securities market infrastructure- protection to market economy forces "the invisible hand" – the new Financial Stability Service (FSS) Industry, in other words to Recovery Resolution Fund (ReReFund). **Please refer to section: Psychological "Group-Thinking" Impediment Preventing Bank Resolvability**

3.5 Banks Tier 2 Capital Technical Difference Problem

A difference between national law and international standards (Basel) on what constitute a risk-free asset position. Has created a costly technical problem on what assets can and should qualify on banks' balance sheet as Tier2 Capital or Risk-Weighted Assets (RWA)?

In order to bring national legalisation in line with international standards, ReReFund follows Basel Committee recommendation and applies a 60% stability hair-cut instead of the 55% discount recommended to covert Risk-Weighted Asset (RWA) to Asset Held in Reserve – Tier 2 Capital.

In so doing, Strategically Important Tangible Assets (SITA) classification change over from costly Risk-Weighted Assets to banks' Tier2 Capital on banks' balance sheet

This brings banks' balance sheet asset positions in line with market/ legal expectation on the resolution of banks, that these assets will be sold as part of the banks' Tier 2 Capital Holdings.

[8] Statement Extracted from section 2. Revaluation Reserves https://www.bis.org/publ/bcbs128b.pdf

The impact in the real world, will see the Top20 Banks average Tier 2 Capital increase by two and half times (251%) whilst JPMorgan will see an increase of just under five times (475%).

3.6 Risk Weighted Assets (RWA):

Risk-weighted assets (also referred to as RWA) are a bank's assets or off-balance-sheet exposures, weighted according to its risk profile. The Basel Committee on Banking Supervision, the Committee explains why using risk-weight approach is the preferred methodology which banks should adopt for capital calculations.

1. RWA is meant to provide an easier approach to compare banks across different geographies
2. Off-Balance Sheet Exposure can be easily included in capital adequacy calculations
3. Banks are not deferred from carrying low risk liquid assets on their books.
4. Off- balance Sheet Assets are free of risk-weighting asset requirements

Since the different types of assets have different risk profiles, weighting assets according to their level of risk primarily allowing banks to discount lower-risk assets. In the most basic application, government debt is allowed a 0% "risk weighting". **Please see section on Legal Implication.**

USA "Living Will" & UK "Ring-Fencing" legalisation requires SITA to be Free of Risk-Weighting

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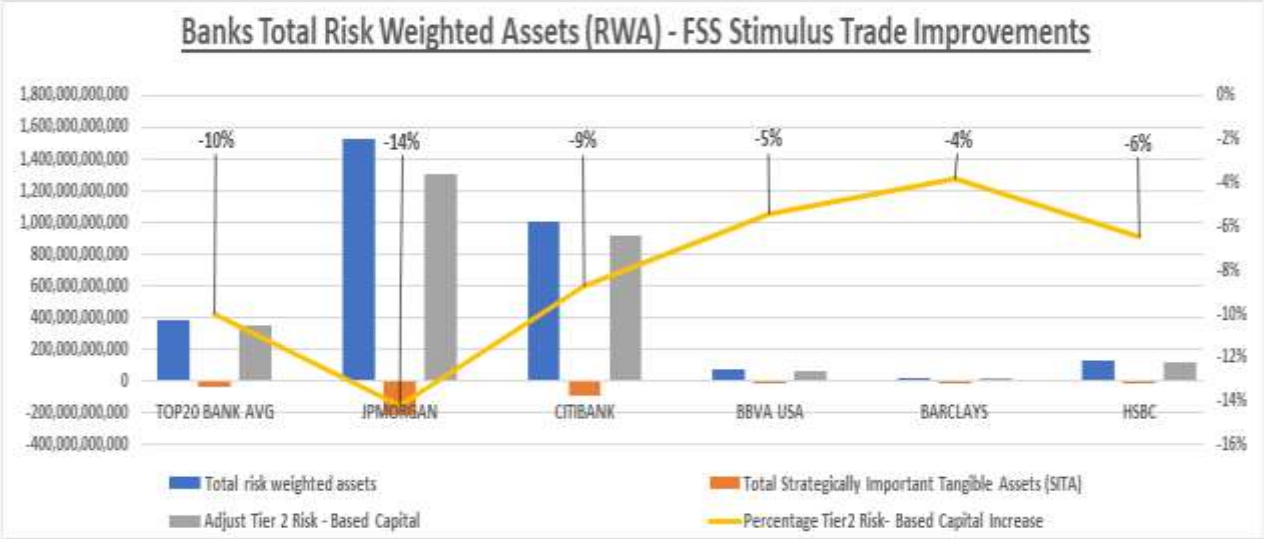
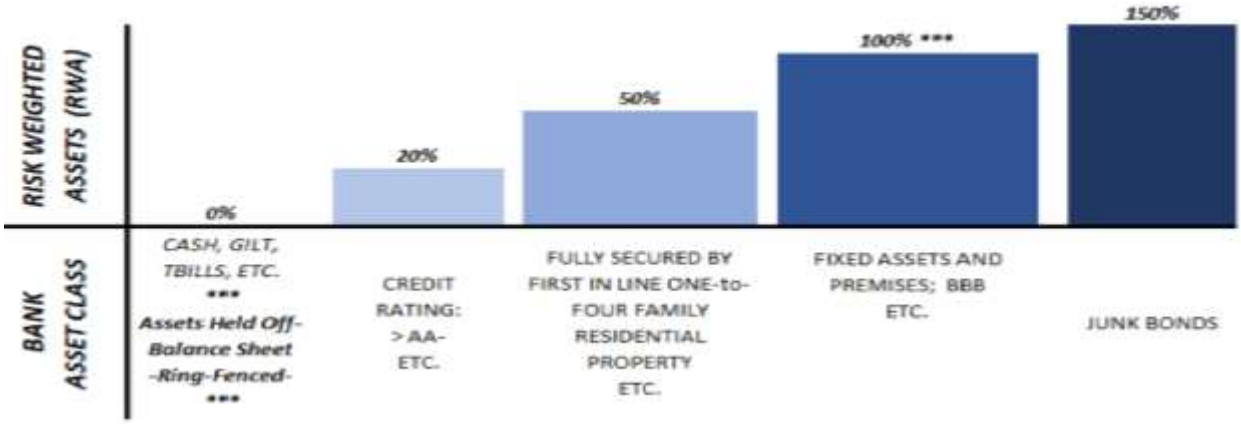


The above diagram shows the impact FSS Stimulus Trade will have on banks' balance sheet, removing Strategically Important Tangible Assets (SITA) from banks' risk weighted assets, will reduce banks RWA by 10% on average- reducing the denominator in banks' capital requirements ratio calculations.

In others words, applying UK Ring-Fencing legalisation – banks strategically important tangible assets (SITA) should be free of risk and recorded as Tier 2 Capital.

To be considered ring fenced and free of Basel Committee related capital risk weighting costs, SITA need to recorded as an off-balance sheet (Ring-Fenced) asset. See below diagram, currently SITA have a 100% risk weighted asset rating – the second highest risk weighting after JUNK Bonds. Which is in direct conflict to national Living Will. Ring Fence legalisation objectives.



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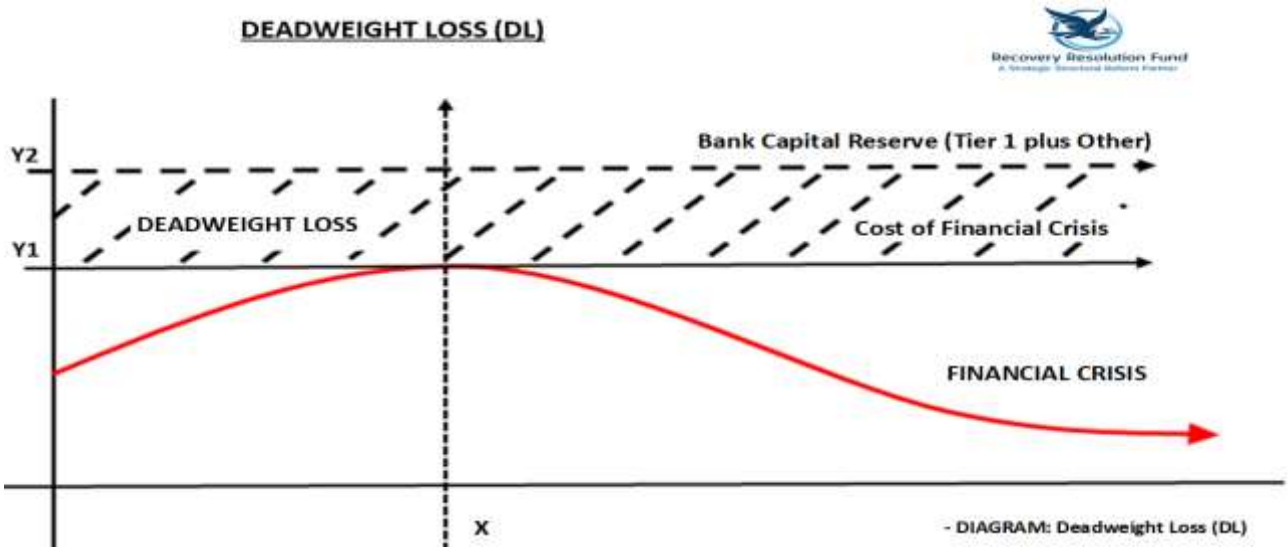
Chapter 4 Deadweight Loss:

Deadweight Loss is a cost to society created by market inefficiency when supply and demand are not in equilibrium. While sectors of society are benefiting from the imbalance created by deadweight-loss in the market, a greater majority are negatively affected by a shift from equilibrium. It's important to point out the number of people who can be credited as benefiting (20%) from the presence of deadweight loss (DL), is far less than those who are directly and indirectly affected (80%) by deadweight loss (DL).

Removal of Deadweight Loss (BRDL) addresses Too-Big-To-Fail (TBTF)



What the above diagram shows is that whilst the cost of financial crisis (*Y1*) is less than the Bank Capital Reserves (Tier1 plus others) (*Y2*). That is to say, whilst banks capital reserve is greater than the costs of the financial crisis. The difference between (*Y1: Y2*) can be deemed inefficient allocation of capital - waste. Especially if you consider that had this excess capital been divert and employed into the economy.

The potential returns earned on employing this excess capital into the economy would have reduced the costs of the crisis, the flatten the curve of the financial crisis (red line) thereby lowering the (*Y1*) line cost of financial crisis further.

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4.1 Basel III Related Deadweight Loss (BRDL) Computations

Basel III Related Deadweight Loss is a systemic problem created by applying Basel III Capital Requirements costs on banks asset holdings is greater, than the reported returns the under-lining assets generate.

4.2 BRDL Cost

The below uses raw client data (PART 1 and PART 2) to show the computation behind

Basel III Related Deadweight Loss.

NAMES ((PART ONE (P1))	TOP20 USA BANK AVG	JPMORGAN	CITIBANK	BBVA USA	BARCLAYS Delaware	HSBC USA
Return on Assets:	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Return on Equity:	9.20%	13.00%	12.00%	5.00%	8.00%	8.00%
Weighted Average Cost of Capital	6.05%	7.03%	6.28%	11.32%	2.30%	3.34%
Banks Target Return on Capital	-10.00%	-10.00%	-10.00%	-10.00%	-10.00%	-10.00%
Capital Adequacy Ration (CAR)	12.62%	12.00%	11.90%	11.80%	13.10%	14.30%

The diagram below is an extract from banks balance sheet and shows the make-up of Strategically Important Tangible Assets (SITA). Assets that should be protected by Ring-Fencing/ Living Will National Legalisation and should be free but are not of Basel III Risk-Weight Assets (RWA) Requirements (Part 1 (P1))

NAMES ((PART TWO (P2))	TOP20 USA BANK AVG	JPMORGAN	CITIBANK	BBVA USA	BARCLAYS Delaware	HSBC USA
Bank premises and fixed assets	5,384,025,250	22,519,000,000	11,863,000,000	1,107,498,000	17,000,000	779,971,000
Other real estate owned	104,068,200	351,000,000	42,000,000	21,392,000	0	6,461,000
All other assets	33,031,699,000	194,321,000,000	75,680,000,000	2,744,577,000	954,000,000	7,473,027,000
TOTAL: STRATEGICALLY IMPORTANT TANGIBLE ASSETS (SITA)	**38,519,792,450**	**217,191,000,000**	**87,585,000,000**	**3,873,467,000**	**971,000,000**	**8,259,459,000**
Banks Total Assets:	638,742,923,000	2,690,959,000,000	1,632,405,000,000	93,019,813,000	33,430,000,000	201,885,682,000
SITA PERCENTAGE OF TOTAL ASSETS	6.03%	8.07%	5.37%	4.16%	2.90%	4.09%

The above Part 2- shows the size of the Basel III Related Deadweight Loss (BRDL) problem effecting banks: SITA accounts for 6% of TOP20 USA Bank Average Total Assets.

Recovery Resolution Fund
A Strategic Structural Reform Partner

(Continued)

NAMES (FORMULA = P1 x P2)	TOP20 USA BANK AVG	JPMORGAN	CITIBANK	BBVA USA	BARCLAYS Delaware	HSBC USA
1) TOTAL CASH HELD IN RESERVE TO COVER SITA	4,861,197,807	26,062,920,000	10,422,615,000	457,069,106	127,201,000	1,181,102,637
2) TOTAL COST OF CAPITAL HELD TO COVER SITA	-486,119,781	-2,606,292,000	-1,042,261,500	-45,706,911	-12,720,100	-118,110,264
3) SITA GENERATED RETURN ON CAPITAL	385,197,925	2,171,910,000	875,850,000	38,734,670	9,710,000	82,594,590
BASEL III RELATED DEADWEIGHT LOSS	-100,921,856	-434,382,000	-166,411,500	-6,972,241	-3,010,100	-35,515,674

The above diagram calculation is based on the below formulas (P1 x P2)

1) Total Cash Held in Reserve to Cover SITA = Capital Adequacy Ratio (CAR) (P1) x Strategically Important Tangible Assets (P2)
2) Total Cost of Capital Held to Cover SITA = Banks Targeted Return on Capital (P1) X Total Cash Held in Reserve to Cover SITA (P2)
3) SITA Generated Return on Capital = Return on Assets (P1) X Total Strategically Important Tangible Assets (P2)
4) **Basel III Related Deadweight Loss = Total Cost of Capital Held to Cover SITA (P2) - SITA Generated Return on Capital (P2)**

The above computations show how Basel III Related Deadweight Loss – costs in the real world impacts future investments decisions regarding upgrading critical assets or in the case of bank branches, keeping them operational.

Last year the cost to the average Top20 USA Bank was US$101million, in the case of JPMorgan the cost was US$434million. More troubling is this is an avoidable cost that is creating social inequality.

NAMES	TOP20 BANK AVG	JPMORGAN	CITIBANK	BBVA USA	BARCLAYS Delaware	HSBC USA
BASEL III RELATED DEADWEIGHT LOSS Cost Per US$million of Banks Total Assets	$-158	$-161	$-102	$-75	$-90	$-176

Please see section on ReReFund Financial Stability Service (FSS) Stimulus.

4.3 BRDL Unintended Costs

This section looks at how BRDL Unintended Costs, created by banks' adopting a cut costing approach to reduce Basel III Capital Requirements costs on their balance sheets is having unintended consequences.

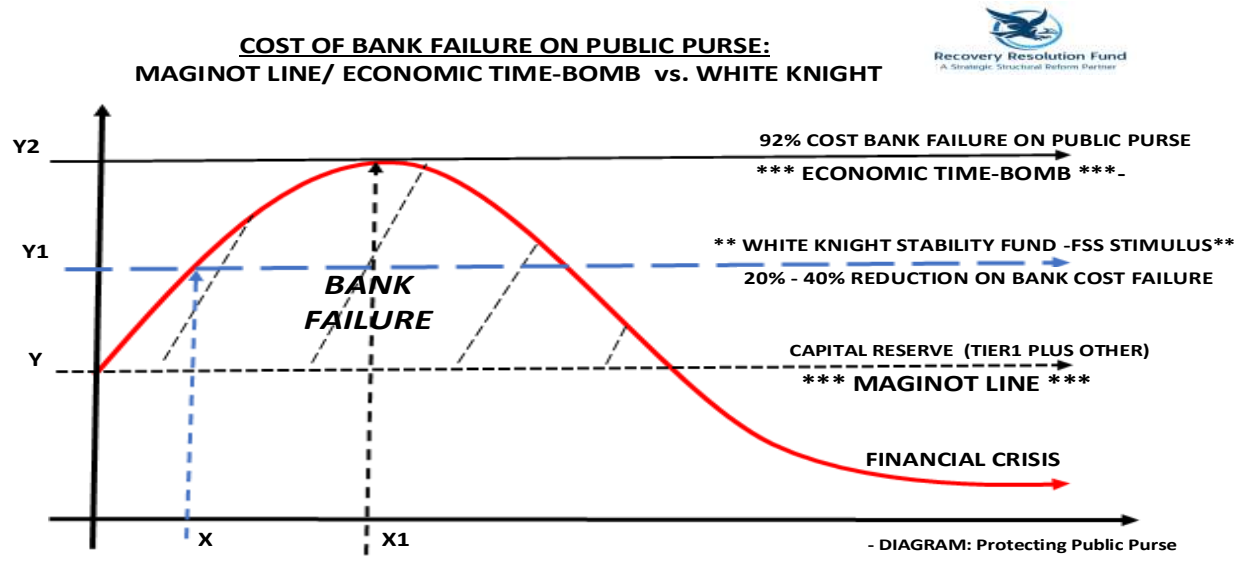
Consider a factory dumping untreated raw waste into a river, unintentionally the banking industry is throwing out the "financial service baby" in the bath water that is causing not only an economic problem, but wider social and environmental problems.

4.4 BRDL Increases Cost of Bank failure on Public Purse

Without treating/addressing Basel III Related Deadweight Loss at source, leaves the Public Purse exposed to 92% Cost of the next bank failure[9].

The diagram below shows (*Y*) Banks Capital Reserves (Tier1 plus Others), in the event of the bank failure, this becomes the financial industry's own Maginot Line. But it is not until point (*Y2:X1*) that the full cost of the bank's failure becomes know. At this point banks' shareholders/creditors are liable for 8%, the remaining 92% of banks loses paid for by the public purse – an economic time bomb. Adding further costs onto the public purse, the assets are carrying Basel III Related deadweight loss, forcing authorities to get involved in selling distressed assets, adding extra costs onto the public purse.

The introduction of a white knight stability fund (ReReFund) is not only expected to reduce the cost on the public purse of a bank failure by between 20% - 40%. ReReFund primary aim here is to assist authorities in speeding up the overall turn-around of a failed bank. It does that by shifting the point of bank failure to point (*Y1:X*) – and by holding 60% of SITA economic value in reserves the assets become attractive.



[9] Bank of England's Approach to Resolution – page 8 – Shareholders and creditors must absorb losses before public funds can be used.
https://www.bankofengland.co.uk/-/media/boe/files/news/2017/october/the-bank-of-england-approach-to-resolution

Recovery Resolution Fund
A Strategic Structural Reform Partner

Chapter 5 Inequality of Opportunity / Over Banked vs Unbanked:

Applying Basel III Related Deadweight Loss (BRDL), increasing compliance costs has made providing traditionally affordable financial service uneconomical to people and communities at the "bottom of the pyramid".

According to data compiled by Thomas Piketty and Emmanuel Saez[10], between 1951 and 1981 the share of income received by the top 10% of householders averaged 34% of total income. However, it exceeded 50% for the first time in over a century in both 2019 and 2018.

In 2019, according to the Consumer Expenditure Survey, the richest 10% of householders spent 64% of their after-tax income and saved the rest. Whilst bottom 90% of householders, on average, spent 99% of their income, many borrowing to finance spending.

Consequently, banks and new challenger banks have followed the money.

Market participants are currently reporting bank branch closure as a result of the growth in internet banking and smart phones. Blaming changes in peoples' behaviour whilst overlooking market distortion forces. ReReFund Research finds, no bank branch closures have been reported over the last 10years in affluent rich areas. Areas such as Hounslow Town Centre, instead have seen a growth in the number of banks opening on its high street. Today, it has 10 different banks within a 100yards (see below) and yet the area has a higher concentration of smart phone and internet bank users then the local area average.

Between January 2015 and August 2019, alone there was a staggering 3,303 bank branch closure, equivalent to 35% of the overall branch network in the country. In effect, turning a large proposition of the bottom UK local economies into economic wastelands.

No doubt, a vast majority of these bank branch closure is the result of the invisible hand of Basel III Related Deadweight Loss. Banks are starting to come under pressure from governments to reduce bank branch closure. In the UK, 124 MP from across political parties recently signed a letter to Barclays Bank CEO requesting his bank to stop closing bank branches.

Would these same 124 MP signatories support a white- knight stability fund?

[10] See "Income Inequality in the United States, 1913-1998", by Thomas Piketty and Emmanuel Saez, Quarterly Journal of Economics, 118(1), 2003, with data updated to 2018

5.1 Securities/ Financial Markets Infrastructure Investment Impact

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Market participants are currently reporting bank branch closure as a result of the growth in internet banking and smart phones. Blaming changes in peoples' behaviour and market force in play. Yet no bank branch closures have been reported over the last 10years in affluent rich areas, which have higher concentration of smart phone

NAMES	TOP20 BANK AVG	JPMORGAN	CITIBANK	BBVA USA	BARCLAYS Delaware	HSBC USA
BASEL III RELATED DEADWEIGHT LOSS Cost Per US$million of Banks Total Assets	$-158	$-161	$-102	$-75	$-90	$-176

5.2 BRDL Social Impact

Bank Branch closure

Market participants currently reporting bank branch closure due to the growth in internet banking and smart phones. Yet no bank branch closures have been reported over the last 10years in affluent rich areas, which have higher concentration of smart phone and internet bank users. Then in inner city and rural areas which have a

5.3 BRDL Untreated Environmental Impact

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Market participants currently reporting bank branch closure due to the growth in internet banking and smart phones. Yet no bank branch closures have been reported

the wider social and environmental impact created by banks' adopting a cut costing approach in order to reduce Basel III Related Deadweight Loss

shows the technical calculations behind calculating Basel III Related D

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Chapter 6 Impediments Preventing Banks' Resolvability

This section shows why and how Basel III Related Deadweight Loss (BRDL)still remains an issue considering its costs implications after 12 years. According to the law, there should be no impediments preventing the resolvability of a failed bank, yet there are two inter-linked impediments preventing the resolvability of failed bank:

(i) Economic Impediment and

(ii) Political Impediment "Group-Thinking".

To ensure there is no impediment; The UK adopted a top-down authoritarian approach, giving the Bank of England (BoE) a mandate to removing any and all impediments. The law goes further, giving the BoE legal authorisation needed to force banks to changes they business modern.

The USA legal framework has adopted a market friendly bottom-up approach, allowing the market participants operating in the public good to apply for an exemption, a lower barrier to entry (Dodd-Frank 165 (e)) **Please see section on Legal Implication.**

6.1 Economic Impediment

The section below shows Basel III Related Deadweight Loss (BRDL) is a systemic economic impediment currently preventing the resolvability/ saviour of a failed bank – in an efficient and effective way as prescribed by law.

Strategically Important Tangible Asset (SITA) Per US$Million Held	$1,000,000 TOP20 USA BANK AV	$1,000,000 JPMORGAN	$1,000,000 CITIBANK	$1,000,000 BBVA USA	$1,000,000 BARCLAYS Delaware	$1,000,000 HSBC USA
1.) BASEL III RELATED DEADWEIGHT LOSS (BRDL)COST: Per $Million of SITA Held	-$158.00	-$161.42	-$101.94	-$74.95	-$90.04	-$175.92
2.) FSS RISK FREE "Board&Lodge" REVENUE Per $Million of SITA Held	$10,171	$11,810	$10,550	$19,018	$3,864	$5,611
3.) FINANCIAL STABILITY SERVICE (FSS) STIMULUS: Per $Million of SITA Held	$46,495	$53,990	$48,230	$86,938	$17,664	$25,651

The above shows how much money each bank is losing investing/holding Strategically Important Tangible Assets (SITA) per US$ Million.

The market average for each bank is US$158 loss suffered per US$ Millions of SITA held. In the event of a bank failure this loss will act as an "economic impediment" in the bank's resolution process. This cost/ loss not only discourages banks from investing in upgrading SITA, it prevents them in future from buying/saving failed banks. **Please refer to above section: XXXXXXXXXXXX Benefits – use the same diagram above**

Economic 101 – As banks are now earning less from their investment in Strategically Important Tangible Assets (SITA) then Basel III Capital Requirements costs. This loss disincentivizes banks from investing in upgrading they infrastructure.

In a cashless economy. this under investment in infrastructure in the long term, puts society at risk.

6.2 Political Impediment (PI) "Groupthink"

To understand the why and how a political impediment (PI) is preventing BRDL from being addressed.

The existence of the Political Impediment preventing the resolvability banks, can be traced back to the public outcry that blamed bankers for the Great 2008 Financial Crisis – at the time "Banker Bashing" became fashionable and normal.

In this environment, a group of people gathered together to address Banks' Too-Big-To-Fail (TBTF) problem. A psychological phenomenon, known as groupthink took hold around the Fukushima Nuclear Disaster.

The underlining principal behind "Fukushima Idea" is based on the concept, that in order to avoid the same economic fallout that followed Lehman Brothers, addressing TBTF at any price was/ is still deemed to be worth the cost.

The underlining principal behind the political impediment (PI) "at any cost" is in conflict with the law that states addressing TBTF must be "efficient and Effective"

6.2.1.1 Milgram Obedience Experiment[11]

To caste light on the behaviour that supports PI, we need to look at "Milgram Experiment" a study in conflict between obedience to authority and personal conscience.

Bankers are not only trained to follow instructions but to reinforce this personality trait. Natural staff cuts in banks along the way have acted as a form of pruning that ensures that by the time a banker gets into senior management, conformity and obedience are ingrained characteristics.

Milgram found that 60% of the general public would "inflict pain" even go further and "murder" someone - if ordered by an authoritarian figure, a person in a white coat. This in part explains why acting under orders, regardless of the wider social and economic costs, bankers are pressing the button – closing bank branches, cutting back on investing in SITA and refusing to accept the exitance of a problem in the market.

[11] https://en.wikipedia.org/wiki/Milgram_experiment

On the ground, this blind obedience has even extended to this Financial Stability Board (FSB) outreach, it reports that the benefit of the reforms significantly outweighs the cost. The report goes on to state that on a conservative estimate of the probability and costs of the financial crisis, the reforms have produced a net benefit to society. This statement of fact by the FSB fails to investigate further and disregards the rise in social inequality since 2008. **Please refer to XXXXXXXXXXXX Basel III Related Deadweight Loss Social Inequality**

When you consider the economic benefits available to banks in mitigating Basel III Related Deadweight Loss that is legally within reach, and why Banks are not prepared to take the steps required to achieve the much desired efficient and effective reform structure.

The restrained behaviour exhibited by the market participants as a whole, reflects the behaviour of "the five monkeys sprayed with cold water" experiment.

6.2.2.1 Five Monkeys Experiment[12]

Every time a monkey tried to climb the ladder for bananas cold water was sprayed on all the monkeys.

The actions taken by authorities in the aftermath of the Great 2008 Financial Crisis have created a "fear factor" in the market which has manifest, just like the replacement monkeys who never got the cold- water treatment still reacting negatively to any attempt to climb the ladder, so it is the size of the fines imposed on banks and the staff cuts have all acted together to create a psychologically barrier that prevented the monkeys from reaching up for the bananas- today banks exhibited that same animal survival instinct and refuse to considering anything remotely on how to address Too-Big-To-Fail (TBTF).

This behaviour is understandable when you consider that between 2008 and 2016, twenty of the world's biggest banks paid more than $235bn (£151.71bn) in fines and compensation for breaching a variety of financial regulations, according to Reuters. Over the same period, four of the biggest U.S. and U.K. banks alone reduced total employment by almost 350,000, according to data compiled by Bloomberg. According to data compiled by Reuters, by 2016 ten of the Europe's biggest banks had implemented staff cuts of 130,000. That's a lot of ice-cold water.

The bankers who were guilty and played a part in 2008 Great Financial Crisis – are no longer involved in the industry.

To remove the psychological impediment (PI) preventing the resolvability of a bank too-big-too-fail (TBTF) will require leadership from the FSB. A gentle top-down push on market participants - banks to comply with the law without fear or favour. **Please refer to Basel III Related Deadweight Loss Unintended Costs**

Chapter 7 Legal Framework

[12] https://balancedworklife.com/5-monkeys-experiment/

The below diagram shows how much of ReReFund Generated Financial Stability Service (FSS) Stimulus become available to banking participants mitigating Basel III Related Deadweight Loss. XXXXXXXXXXXXXXXXXXXXXXXXXXXXX

The Board of Governors of the Federal Reserve System (The Board) may grant exemptions that are in the public interest and consistent with the purposes of sections 165(e) of the Dodd-Frank Act.

The law requires the Board to establish single- counterparty credit limits (SCCL)[13], which prohibits banks from having credit exposures to any unaffiliated company that exceeds 25 percent of the capital stock and surplus of the bank, considering the Top20 Bank (31%) average involves moving more than 25 percent of banks Tier1 the exemption will be required.

Opening an FSS Trade will require applying for an exemption from the Board, which technically is easier than applying for authorisation to trade.

[13] https://www.federalregister.gov/documents/2018/08/06/2018-16133/single-counterparty-credit-limits-for-bank-holding-companies-and-foreign-banking-organizations