

Financial Firms: Past, Present and Future



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Panel Detail:

Tuesday, April 27, 2010 2:30 PM – 3:45 PM

Speakers:

[Israel Englander](#), Chairman and CEO, Millennium Partners

[Daniel Loeb](#), CEO, Third Point LLC

[Erol Uzumeri](#), Senior Vice President, Teachers' Private Capital, Ontario Teachers' Pension Plan Board

[Barry Volpert](#), Chairman and Co-Founder, Crestview Partners

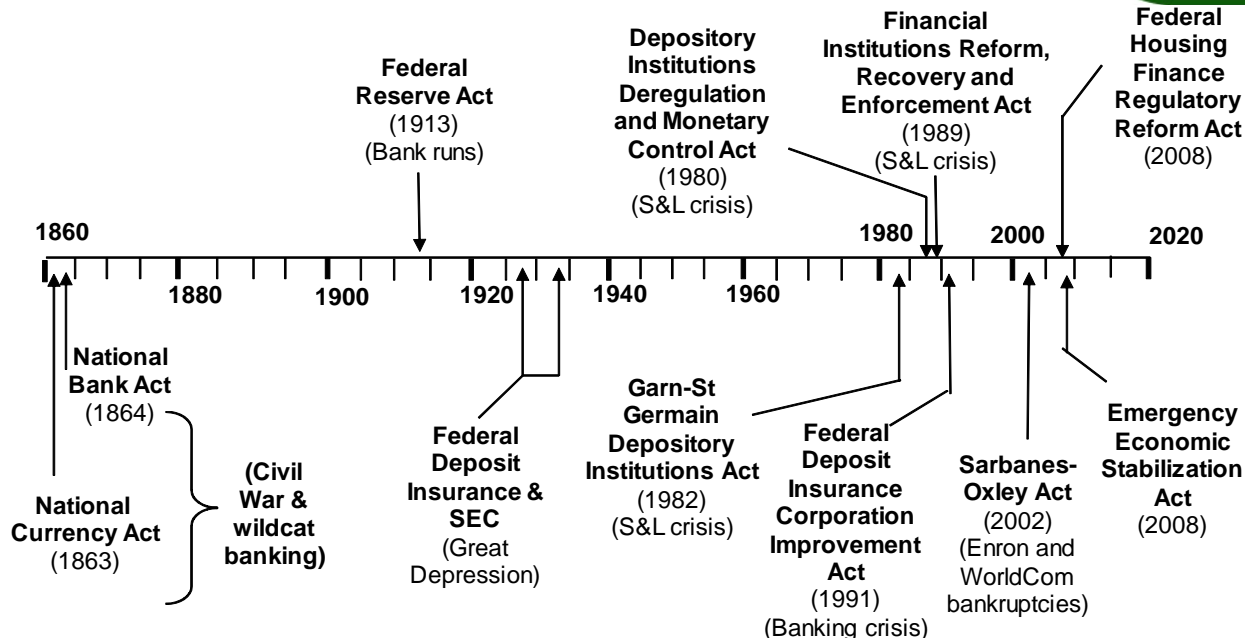
Moderator:

[Duncan Goldie-Morrison](#), Senior Advisor, Crédit Agricole; Chairman, Newedge

Most major U.S. banking laws are a response to crises



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Source: Milken Institute.

Are the biggest banks in the world too big to fail?

Trillion dollar banks, ranked by assets, 2009

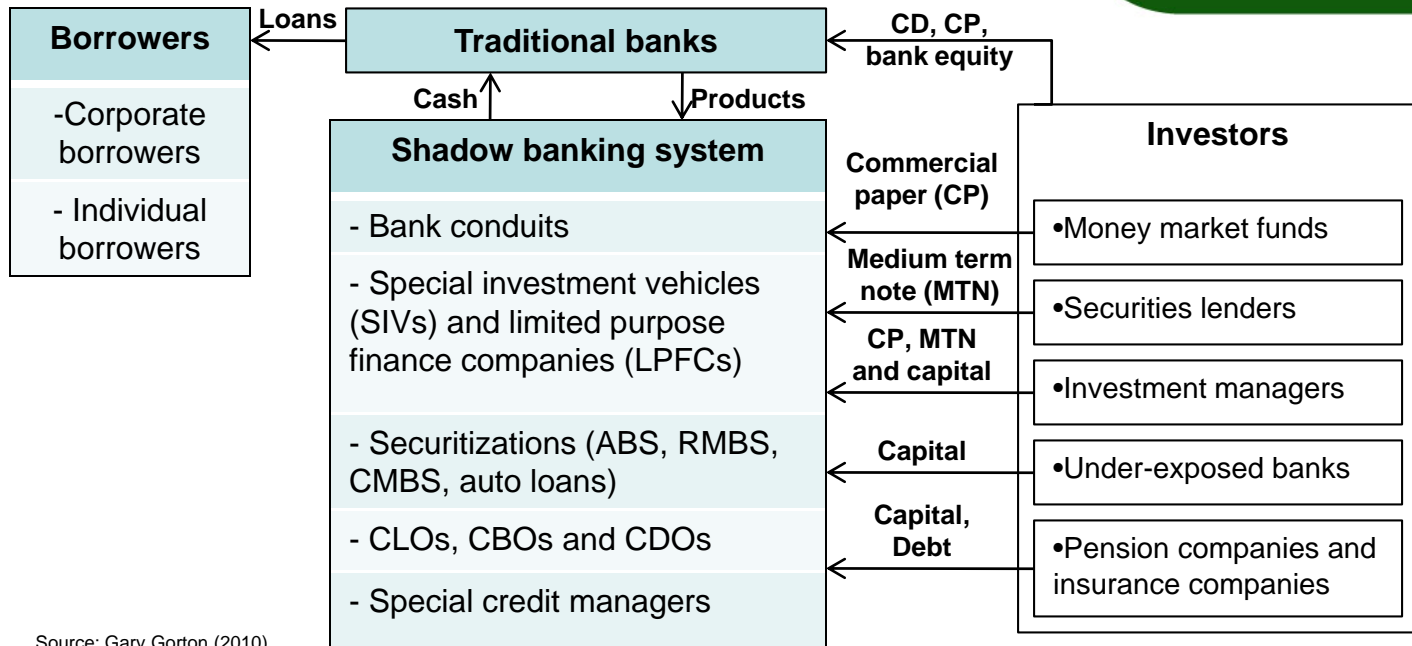
Bank	Country	Total Assets (US\$ trillions)	Market Cap (US\$ billions)
1 BNP Paribas	France	2.9	93
2 Royal Bank of Scotland	U.K.	2.7	38
3 HSBC Holdings	U.K.	2.4	178
4 Mitsubishi UFJ	Japan	2.3	73
5 Credit Agricole	France	2.2	40
6 Barclays	U.K.	2.2	66
7 Bank of America	U.S.	2.2	180
8 Deutsche Bank	Germany	2.2	48
9 JPMorgan Chase	U.S.	2.0	179
10 Citigroup	U.S.	1.9	123
11 Mizuho Financial	Japan	1.7	32
12 ICBC	China	1.7	241

Bank	Country	Total Assets (US\$ trillions)	Market Cap (US\$ billions)
13 ING	Netherlands	1.7	38
14 Lloyds Banking	U.K.	1.7	64
15 Banco Santander	Spain	1.6	111
16 Societe Generale	France	1.5	47
17 Unicredit	Italy	1.4	58
18 China Construction Bank	China	1.3	184
19 Sumitomo Mitsui	Japan	1.3	45
20 UBS	Switzerland	1.3	60
21 Bank of China	China	1.3	149
22 Wells Fargo	U.S.	1.2	162
23 Commerzbank	Germany	1.2	11
24 AXA	France	1.0	51

Sources: Bloomberg, Milken Institute.

Note: Market capitalization is from March 19, 2010.

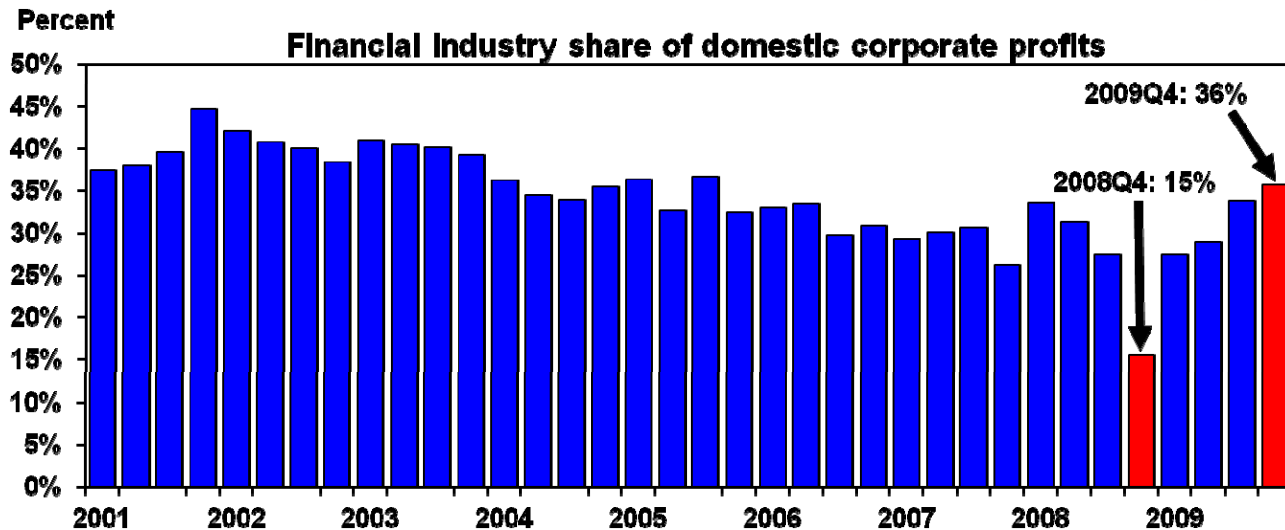
Traditional vs. shadow banking system



Source: Gary Gorton (2010).

Financial industry once again accounting for large portion of U.S. corporate profits

Quarterly: 2001Q1 — 2009Q4



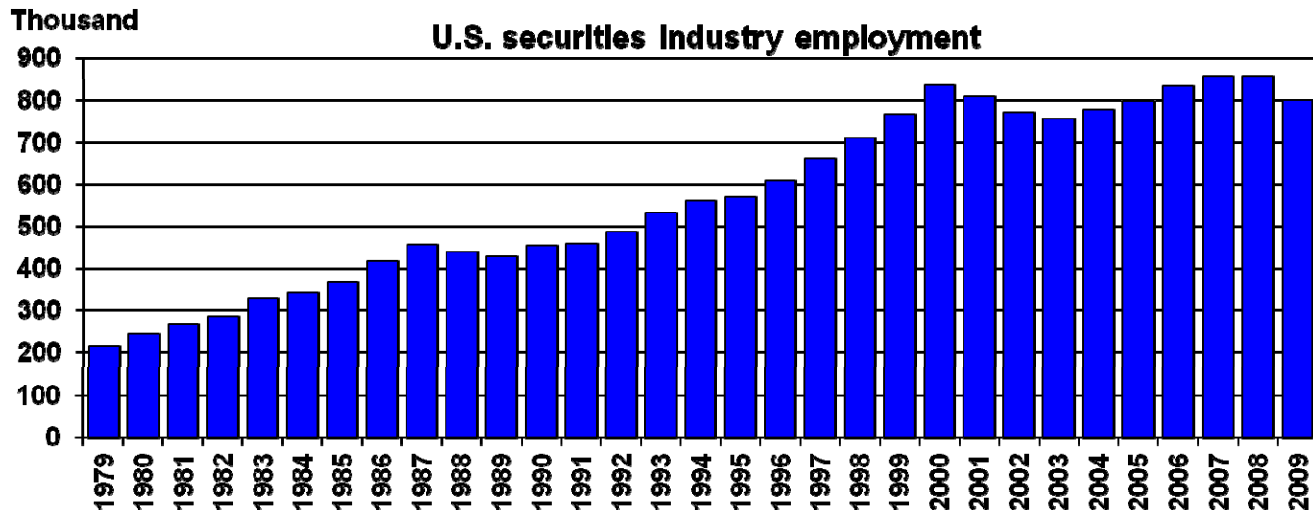
Source: BEA.

U.S. securities industry employment down 58,000 from 2007 peak

Year-end: 1979 — 2009



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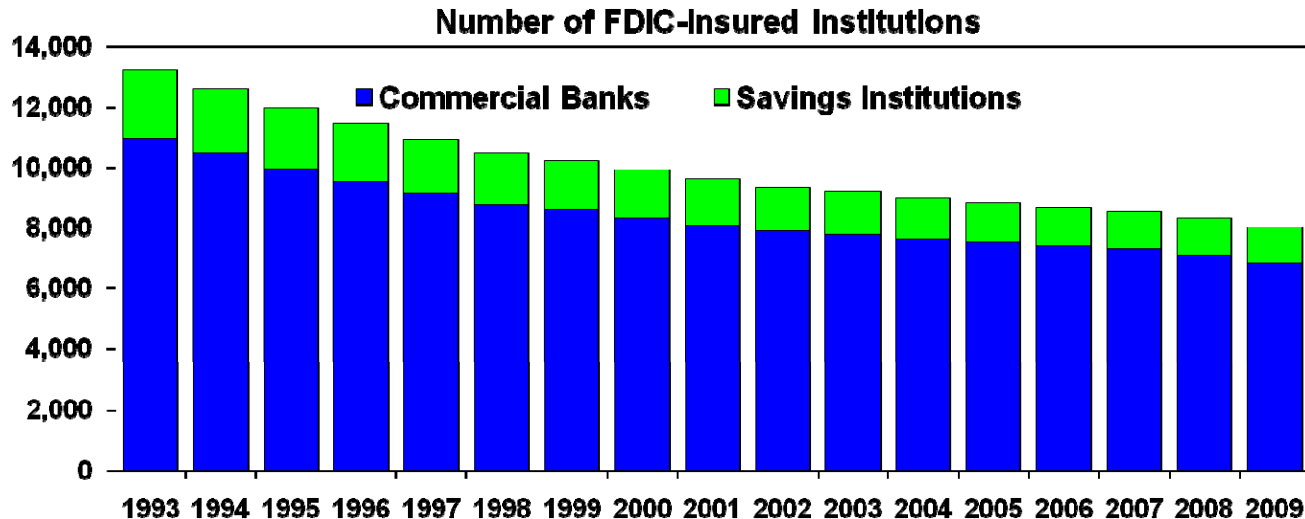
Source: SIFMA.

Banking industry has changed dramatically

Annual: 1993 — 2009



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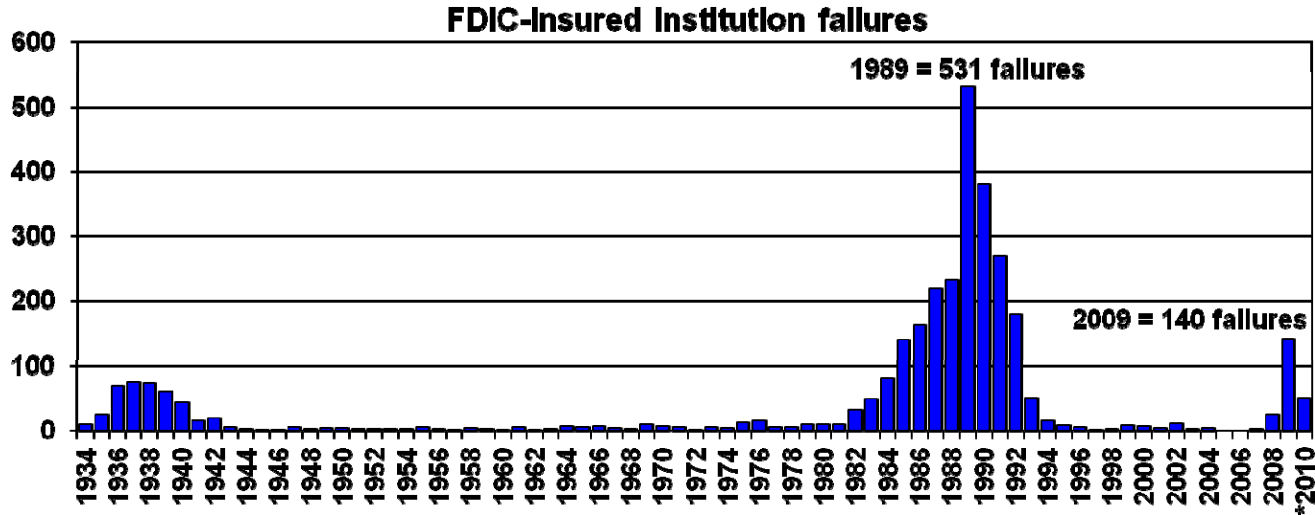
Source: FDIC.

Bank failures reached 140 in 2009

*Annual: 1934 — *2010*



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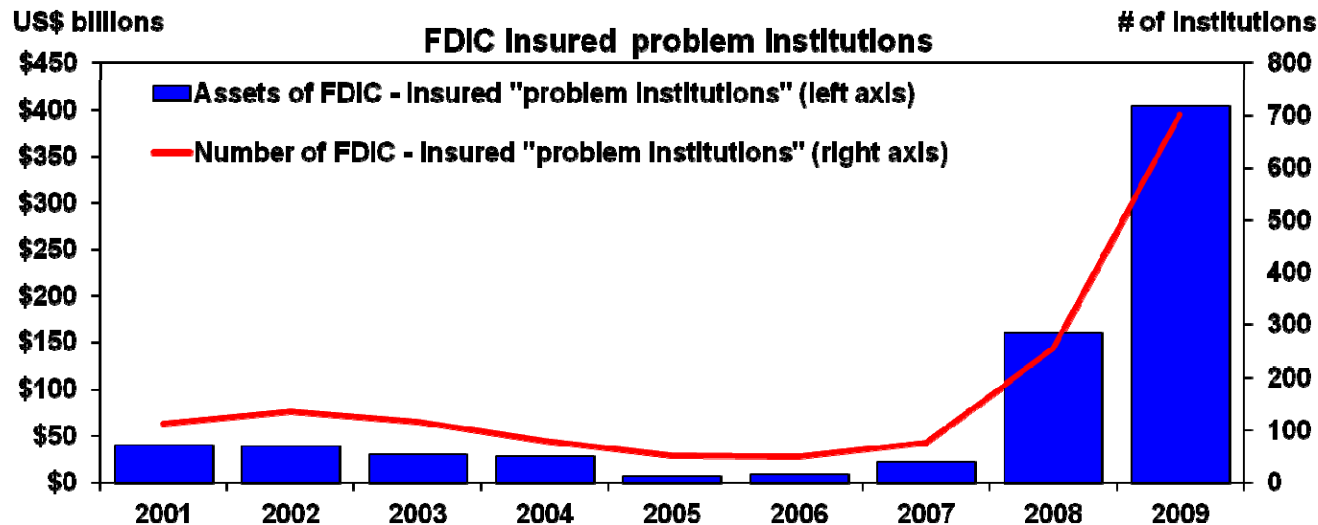


Source: FDIC.

*through April 16, 2010

Number of “problem institutions” reached 702 in 2009, exceeding \$400 billion in assets

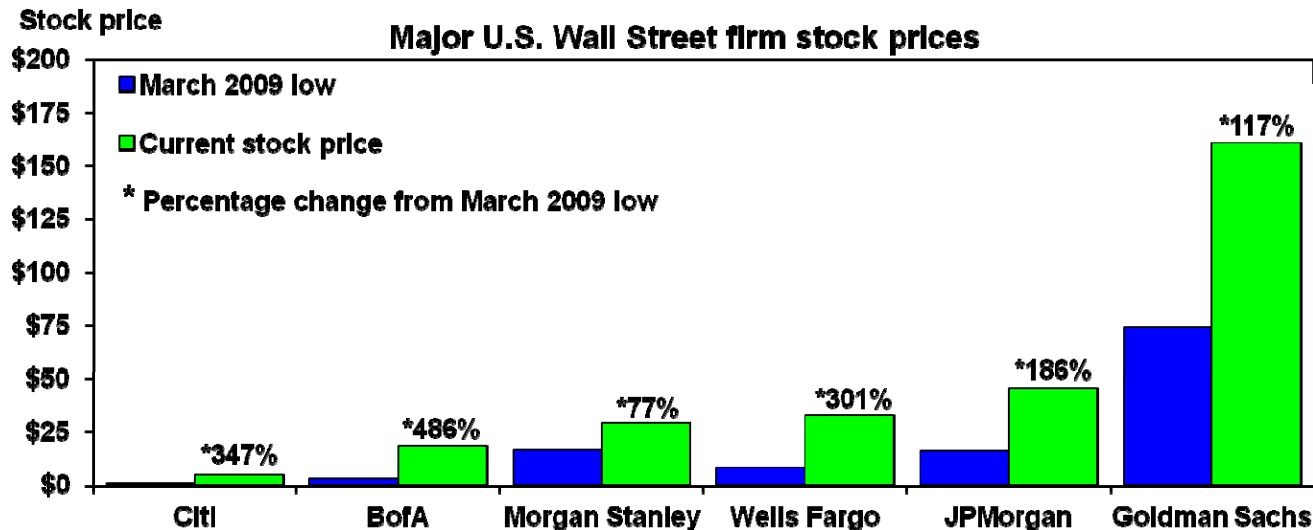
Annual: 2001 — 2009



Source: FDIC.

Stock prices of Wall Street firms have risen significantly from March 2009 lows

Current: April 16, 2010



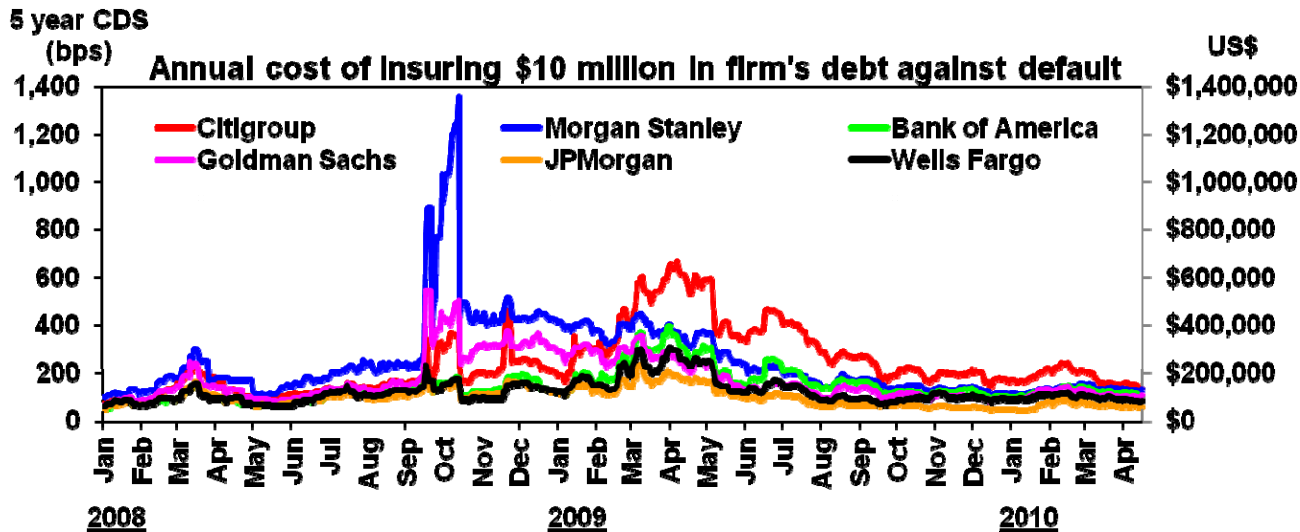
Source: Bloomberg.

Default risk of Wall Street firms has fallen sharply post-crisis

Daily: January 1, 2008 – April 16, 2010



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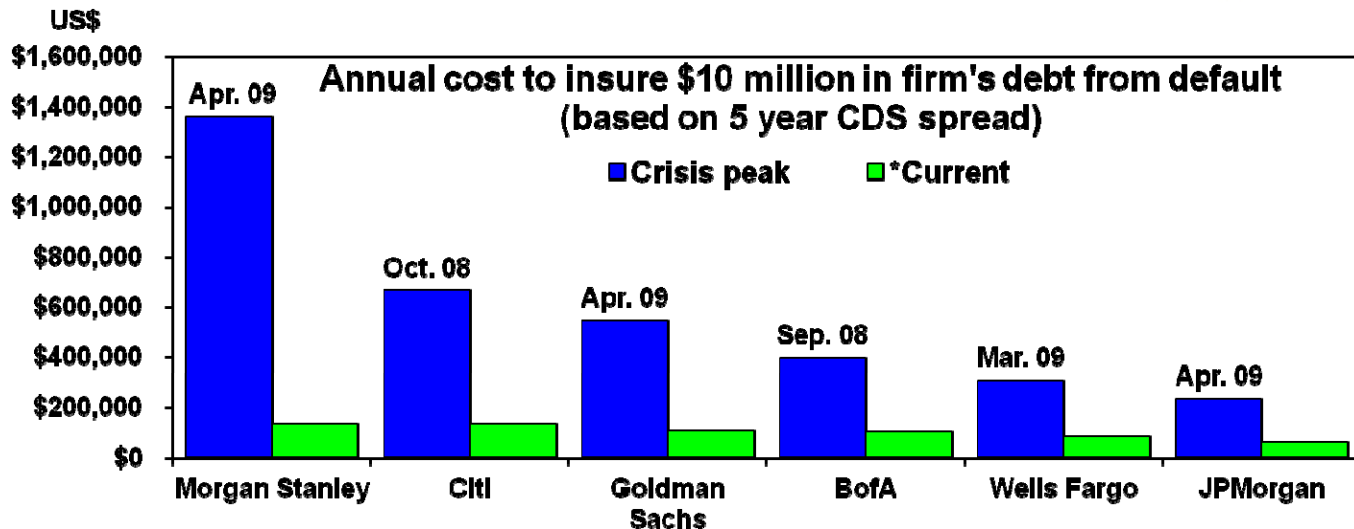
Source: Bloomberg.

Default risk of major Wall Street firms has fallen sharply post-crisis



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**Current: April 16, 2010*



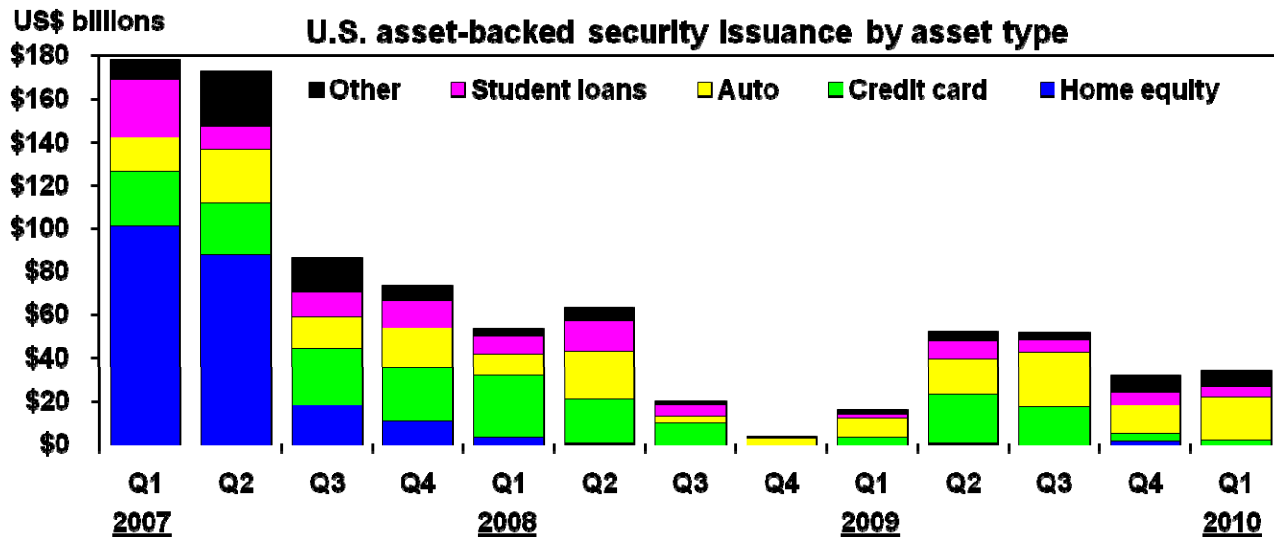
Source: Bloomberg.

Structured finance staging a comeback?

Quarterly: Q1-2007 — Q1-2010



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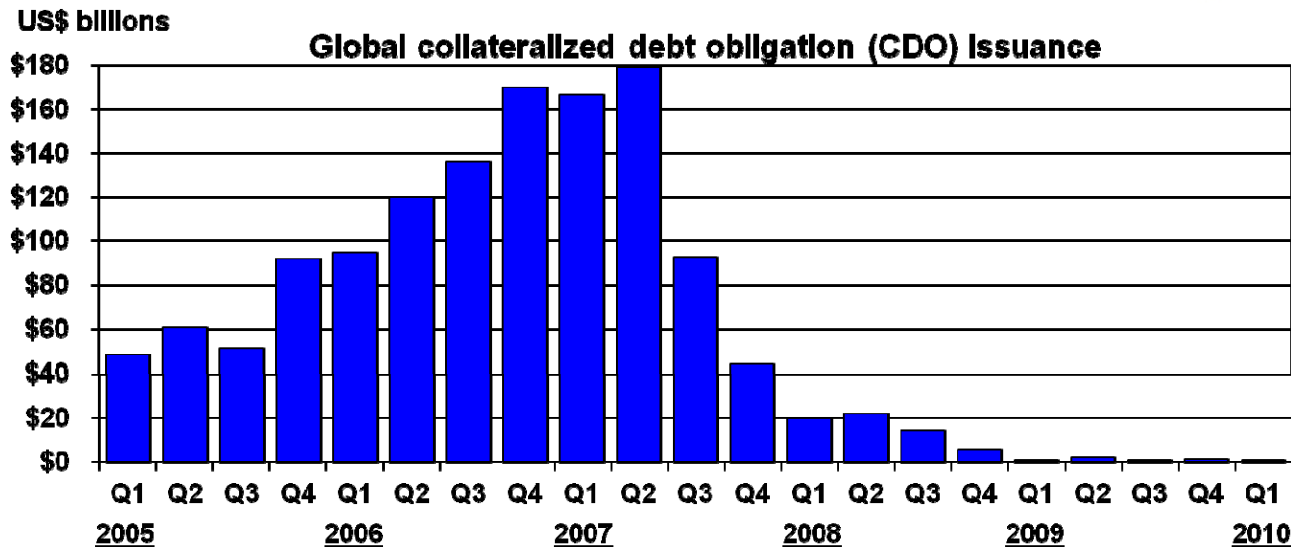
Source: SIFMA.

Will / should CDO market return?

Quarterly: Q1-2005 — Q1-2010



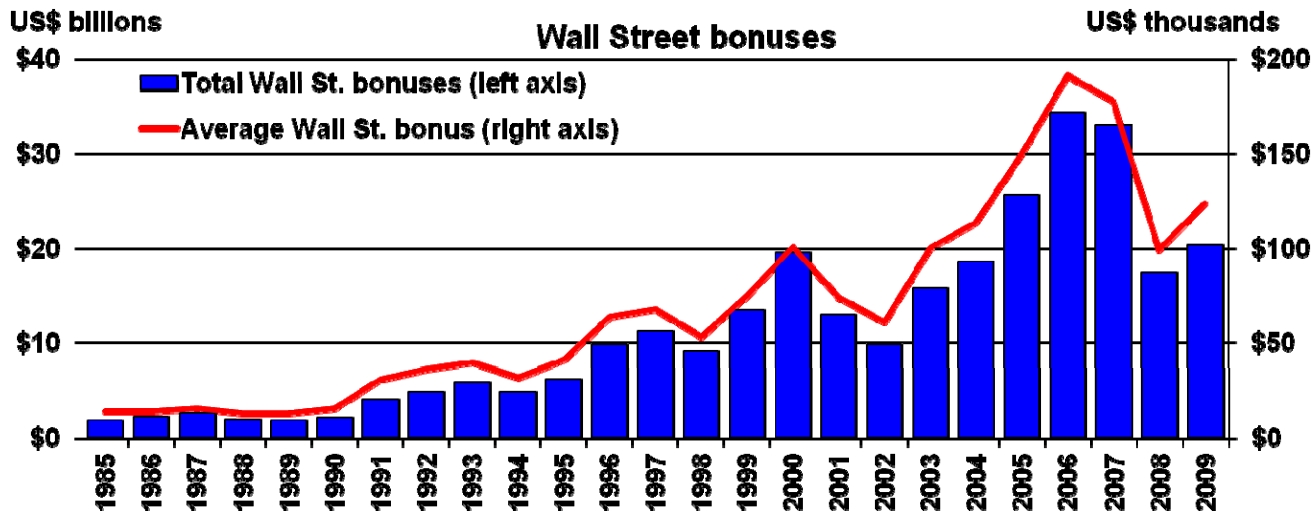
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Source: SIFMA.

Wall Street bonus pool rebounded in 2009

Annual: 1985 — 2009



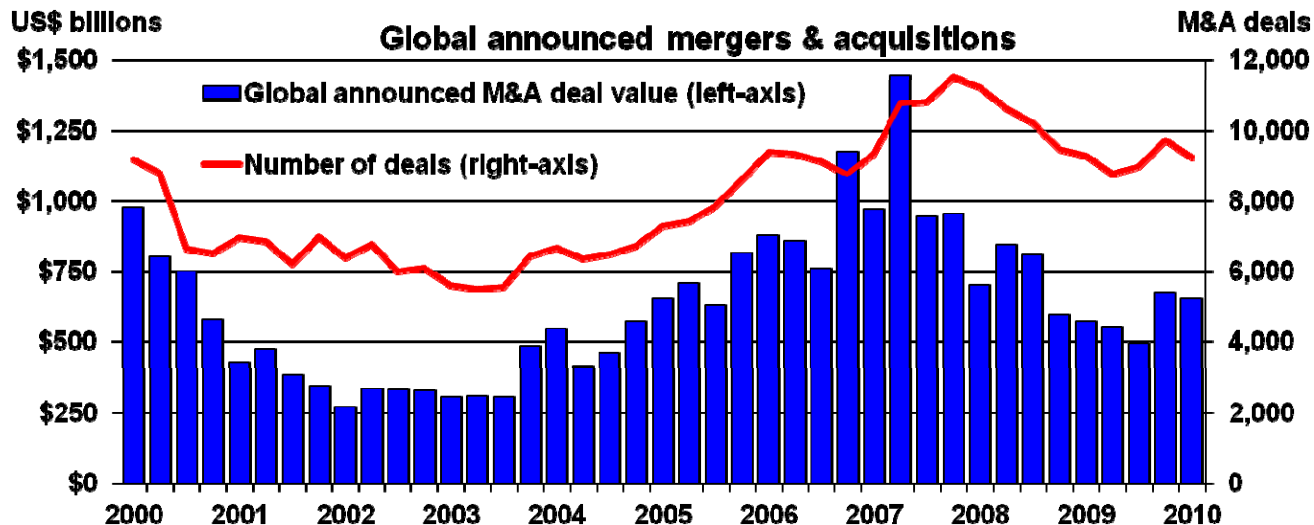
Source: New York Office of the State Comptroller.

Global M&A activity recovering

Quarterly: Q1-2000 — Q1-2010

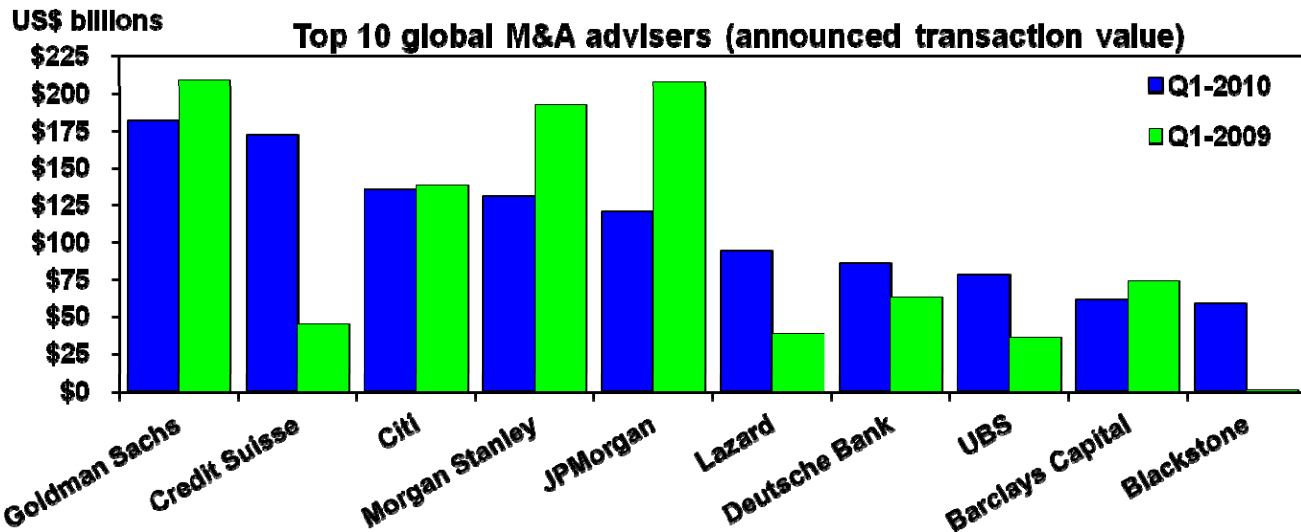


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Source: Dealogic.

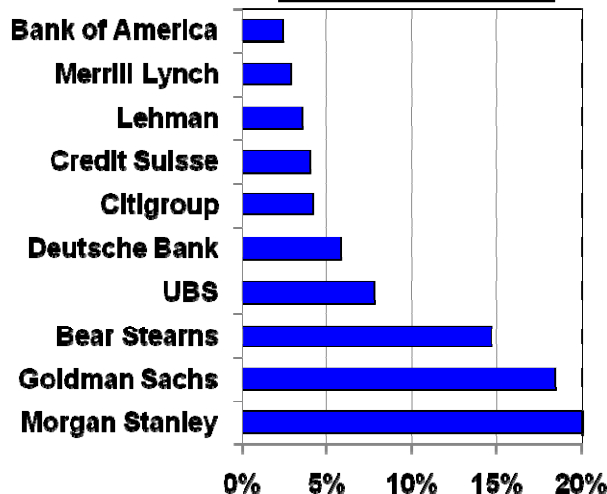
Top 10 global M&A advisers reshuffling



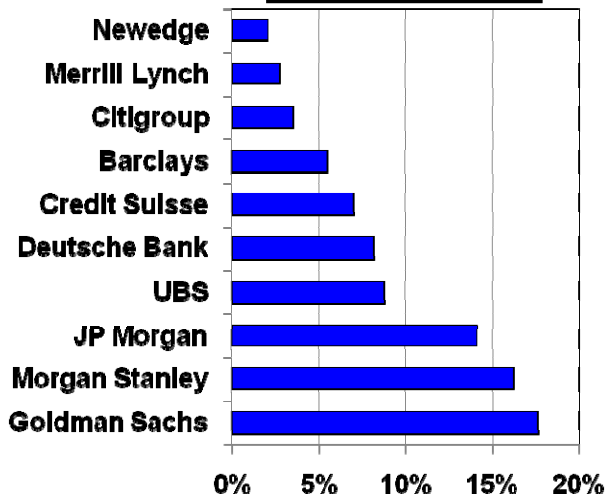
Source: Dealogic.

Top 10 global hedge fund prime brokers by assets under management

2007 market share



2009 market share



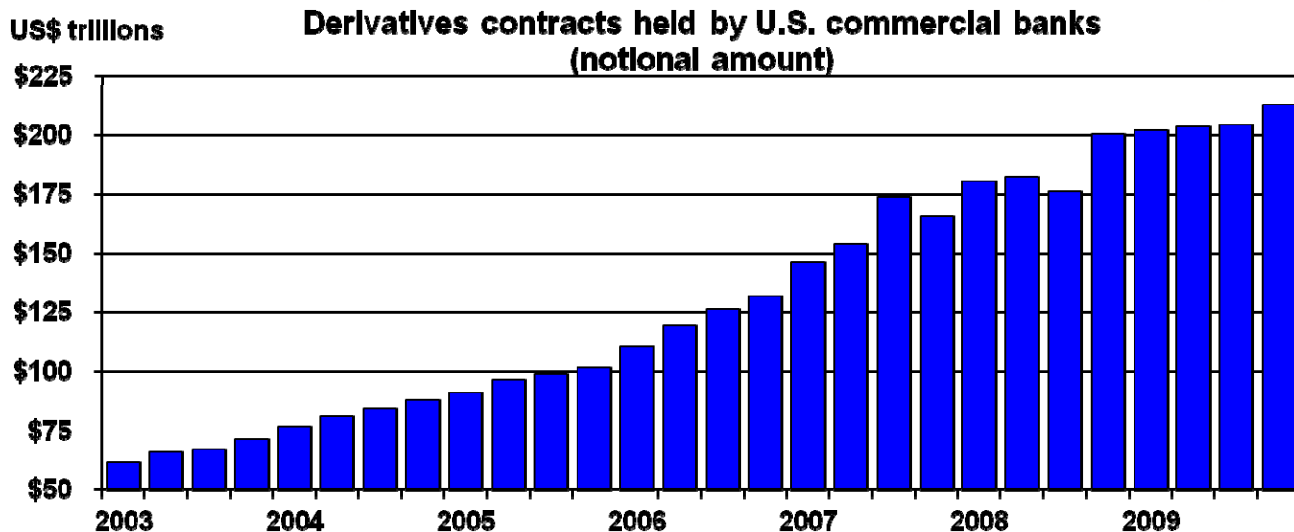
Source: EurekaHedge.

Notional amount of derivatives contracts held by U.S. commercial banks still rising



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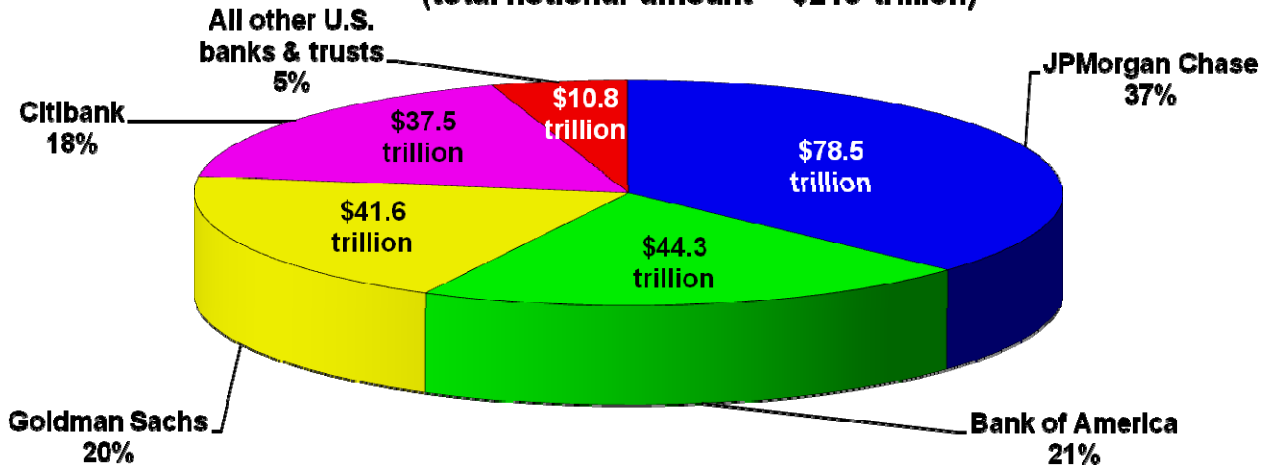
Quarterly: Q1-2003 — Q4-2009



Source: Comptroller of the Currency.

Wall Street banks make up lion's share of derivatives contracts

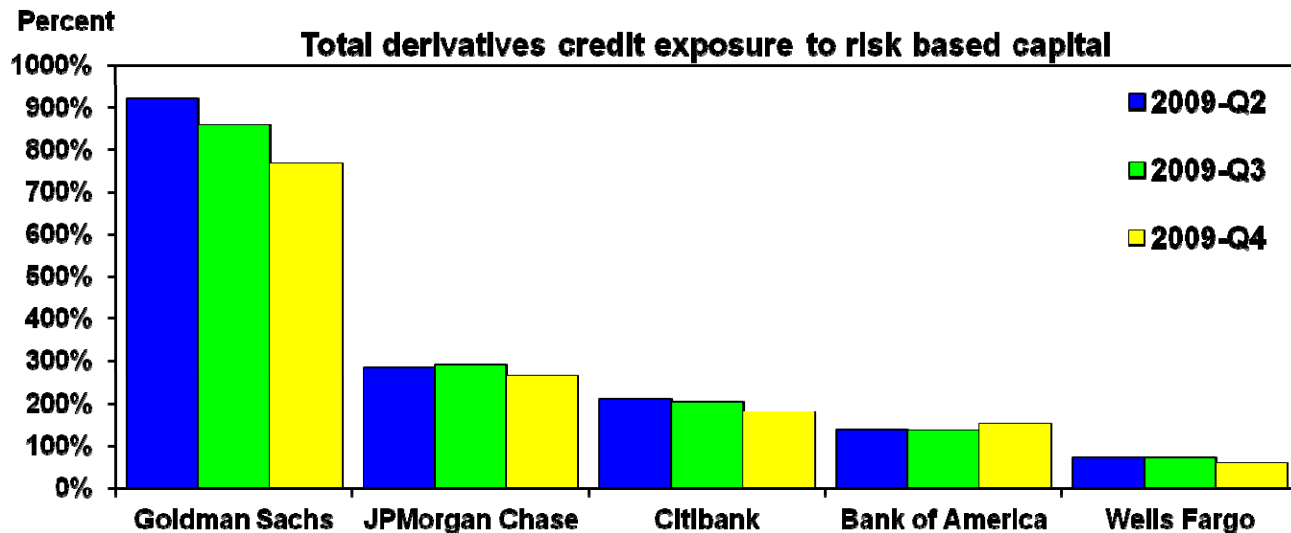
**Derivatives contracts held by U.S. commercial banks as of 12/31/09
(total notional amount = \$213 trillion)**



Source: Comptroller of the Currency.

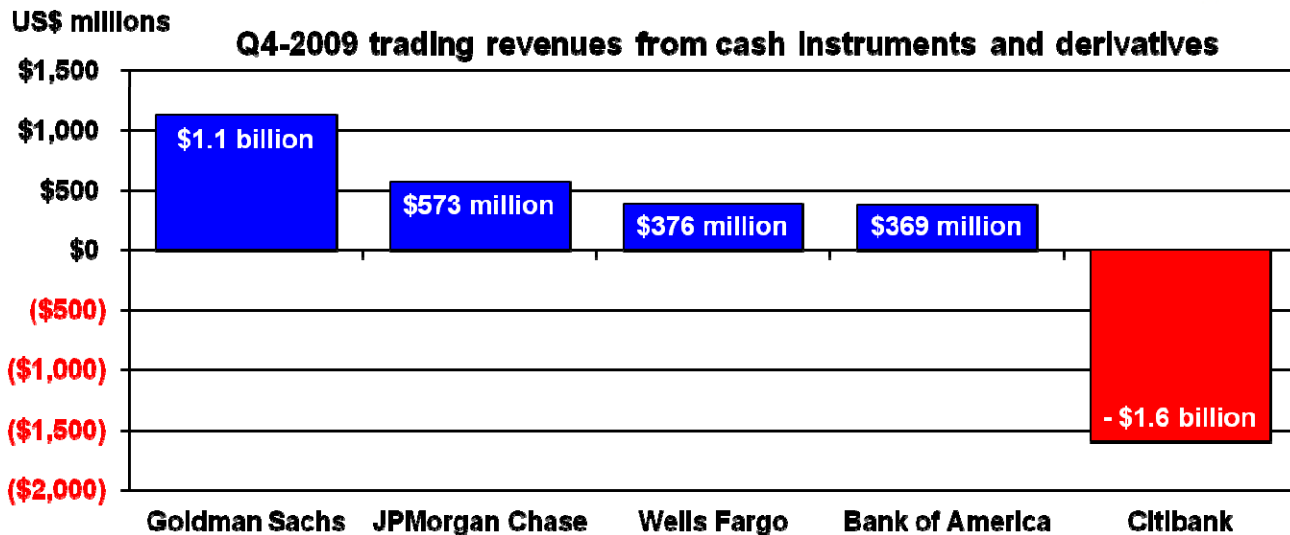
Major Wall Street banks have reduced derivatives credit exposure

Quarterly: Q2-2009 — Q4-2009



Source: Comptroller of the Currency.

Derivatives trading can account for billions in Wall Street gains and losses

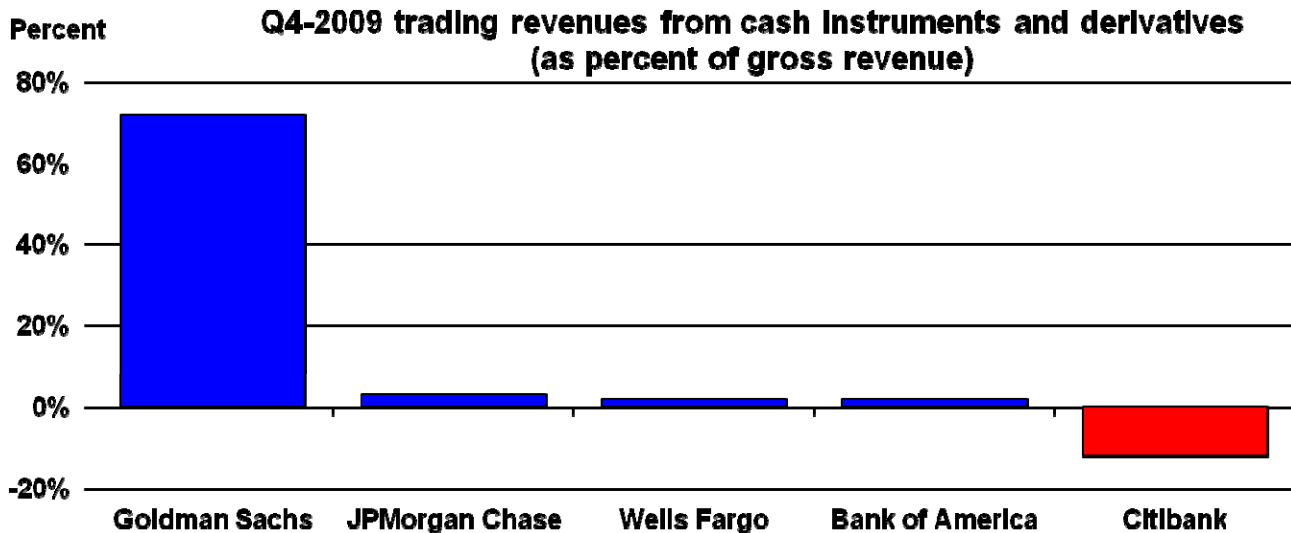


Source: Comptroller of the Currency.

Derivatives trading can account for large portion of Wall Street gross revenue or losses



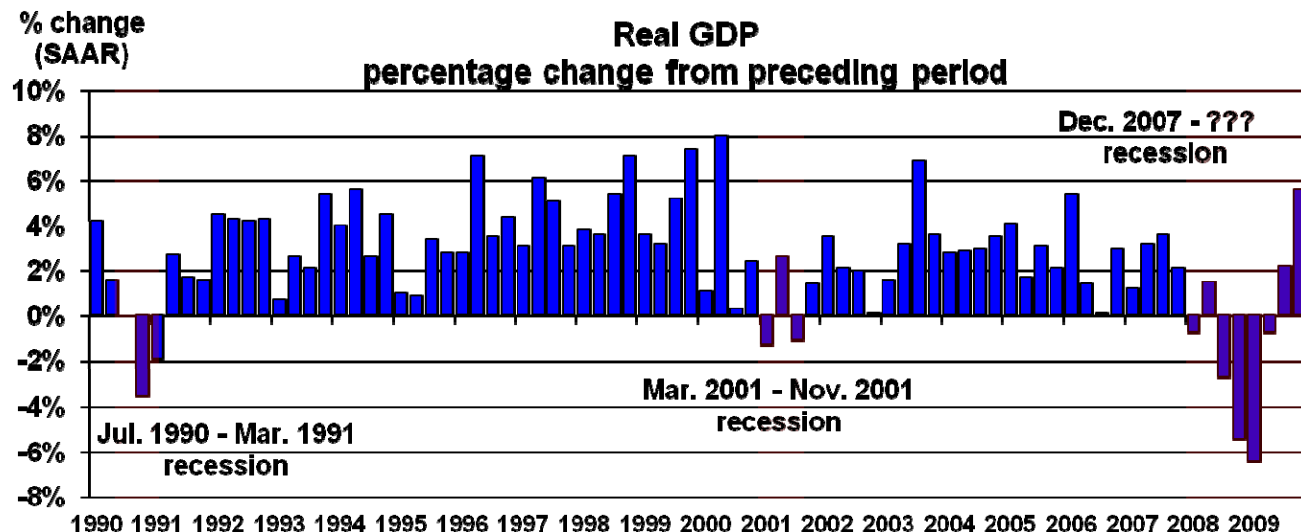
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Source: Comptroller of the Currency.

U.S. Real GDP expanding as economy recovers

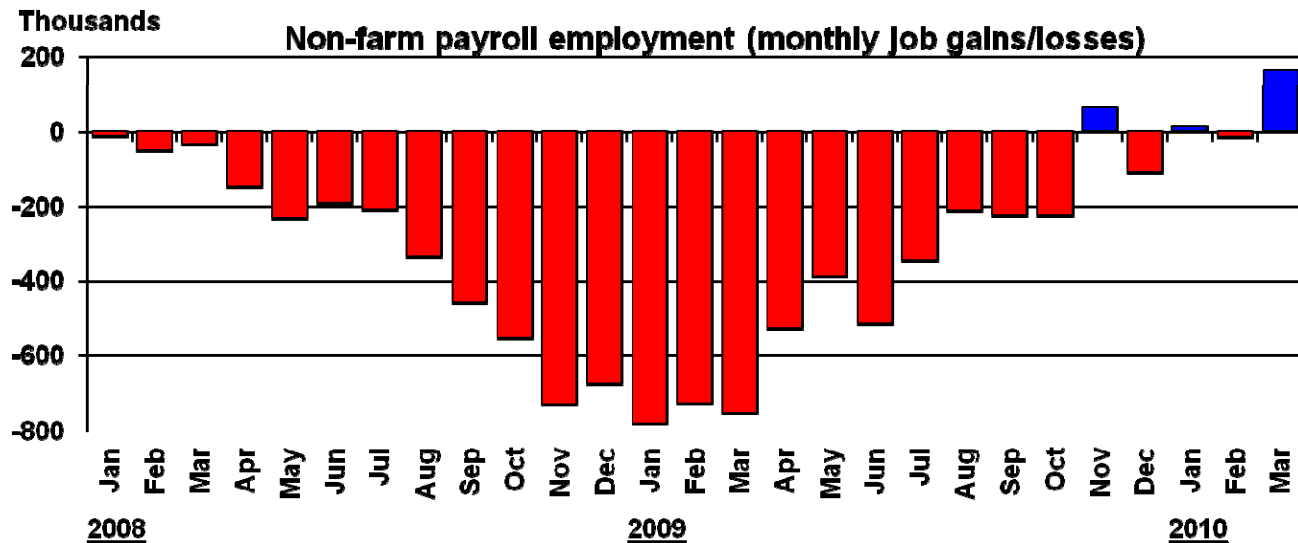
Quarterly: 1990Q1 – 2009Q4



Sources: BEA, NBER.

U.S. economy beginning to add jobs

Monthly: Jan. 2008 – Mar. 2010



Source: BLS.

U.S. unemployment rate improving

Monthly: Jan. 2008 – Mar. 2010



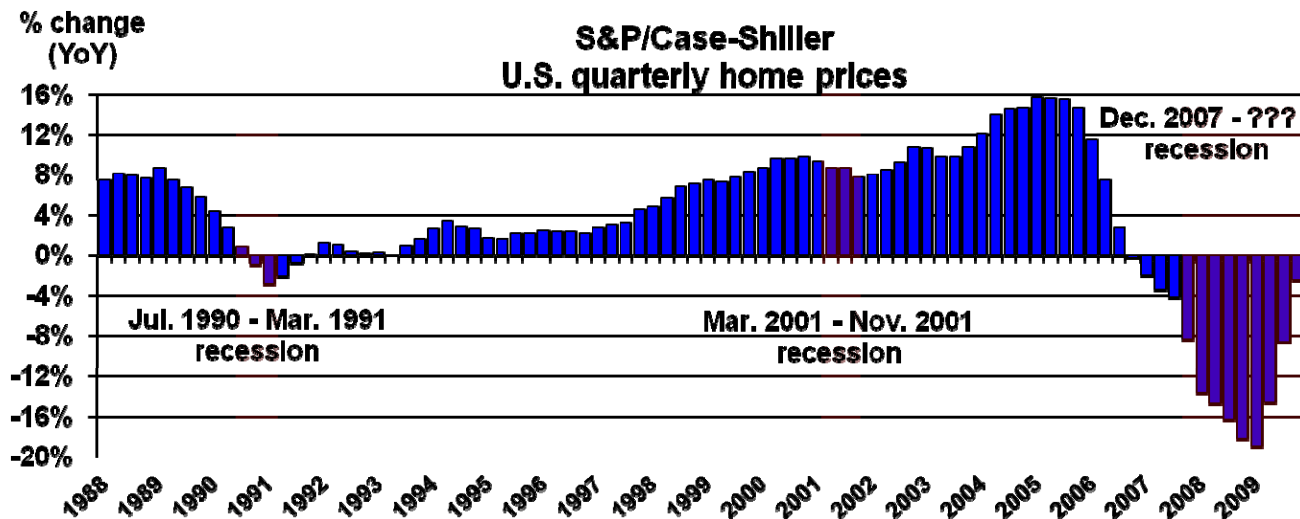
Source: BLS.

Home prices may have touched bottom

Quarterly: 1988Q1 – 2009Q4



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Sources: S&P/FiServ, NBER.

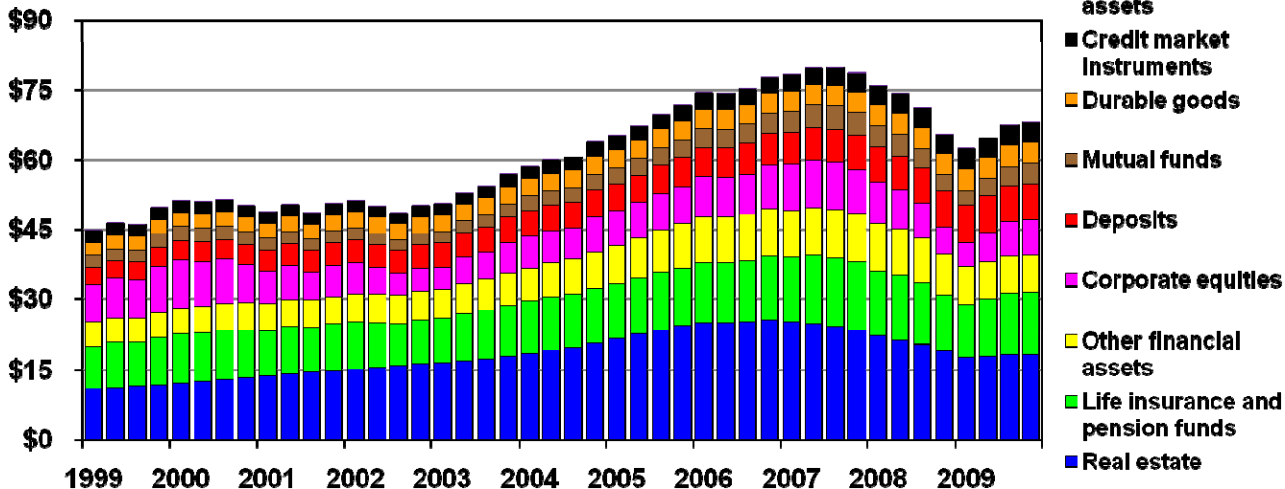
U.S. household assets up 9 percent from bottom in Q1-2009

Quarterly: 1999Q1 – 2009Q4



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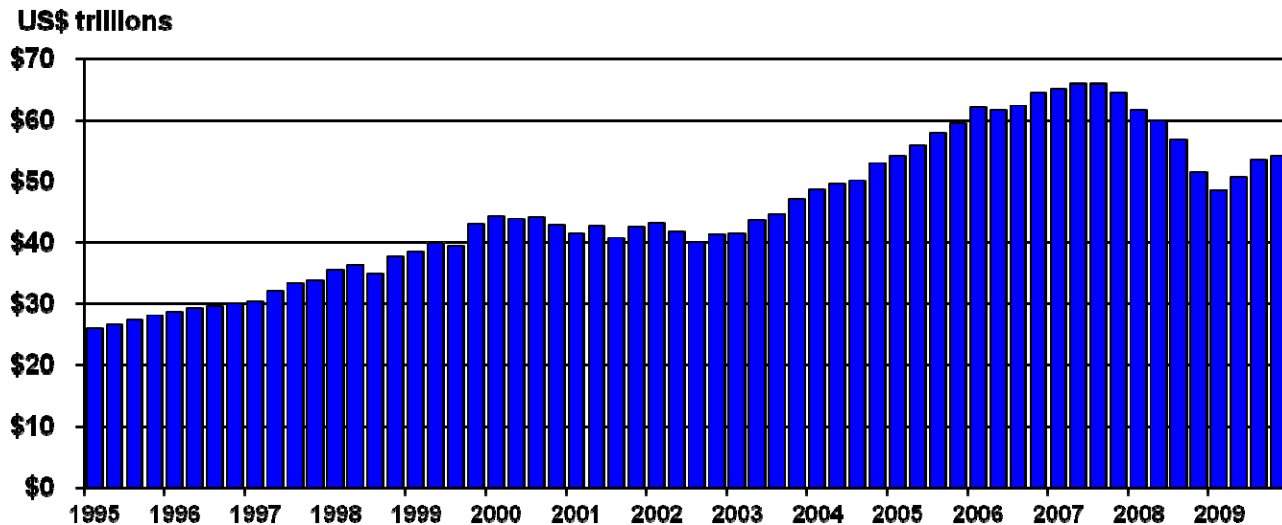
US\$ trillions



Source: Federal Reserve.

U.S. household net worth beginning to rise

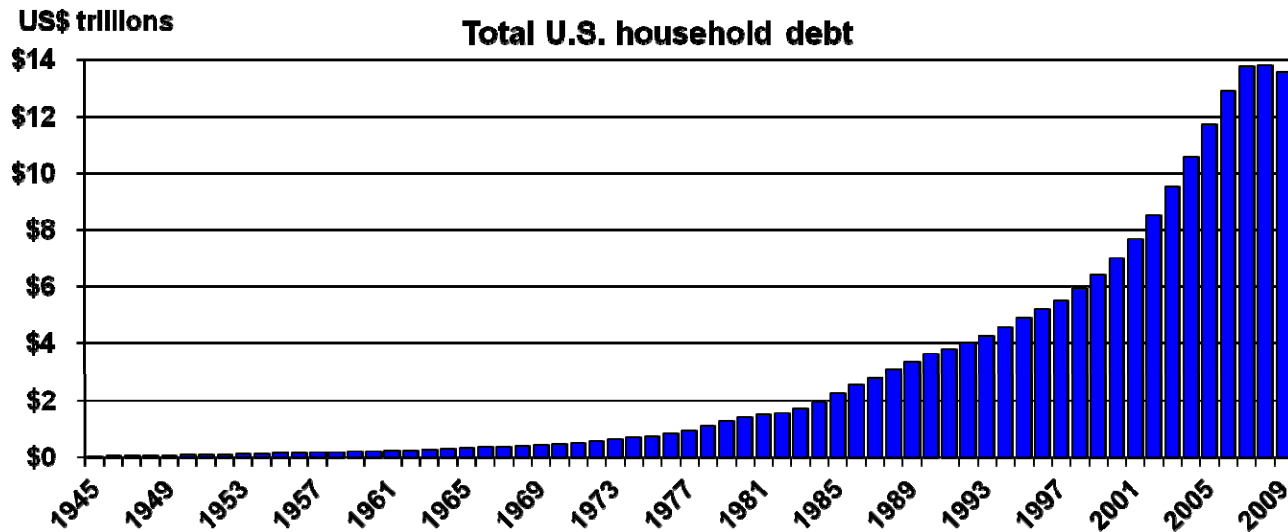
Quarterly: 1995Q1 – 2009Q4



Source: Federal Reserve.

2009: first time on record that total U.S. household debt fell year-over-year

Annual: 1945 – 2009



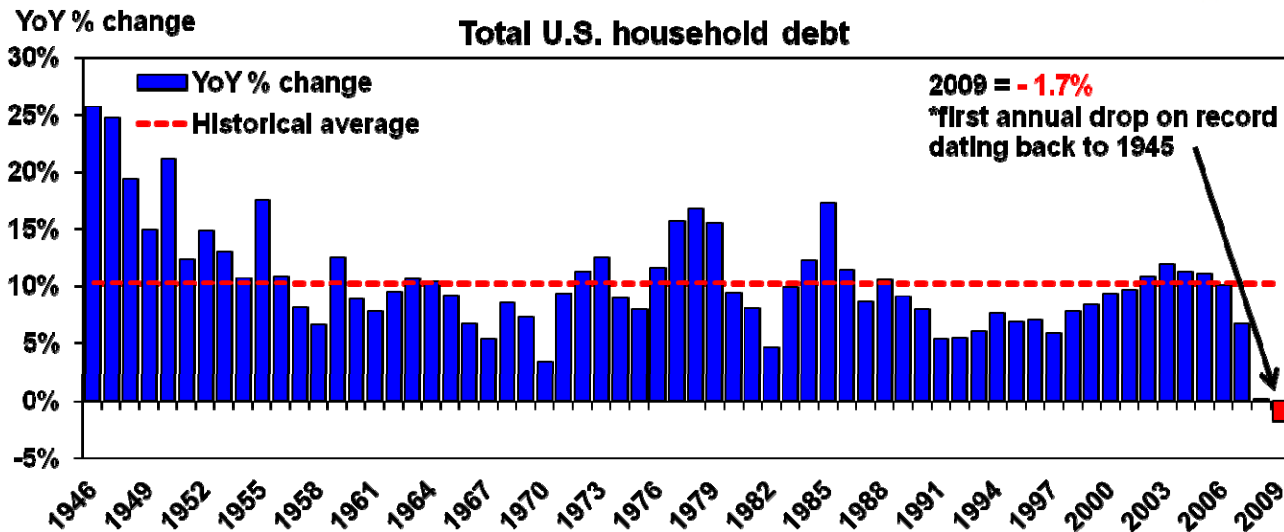
Source: Federal Reserve

2009: first time on record that total U.S. household debt fell year-over-year

Annual: 1945 – 2009



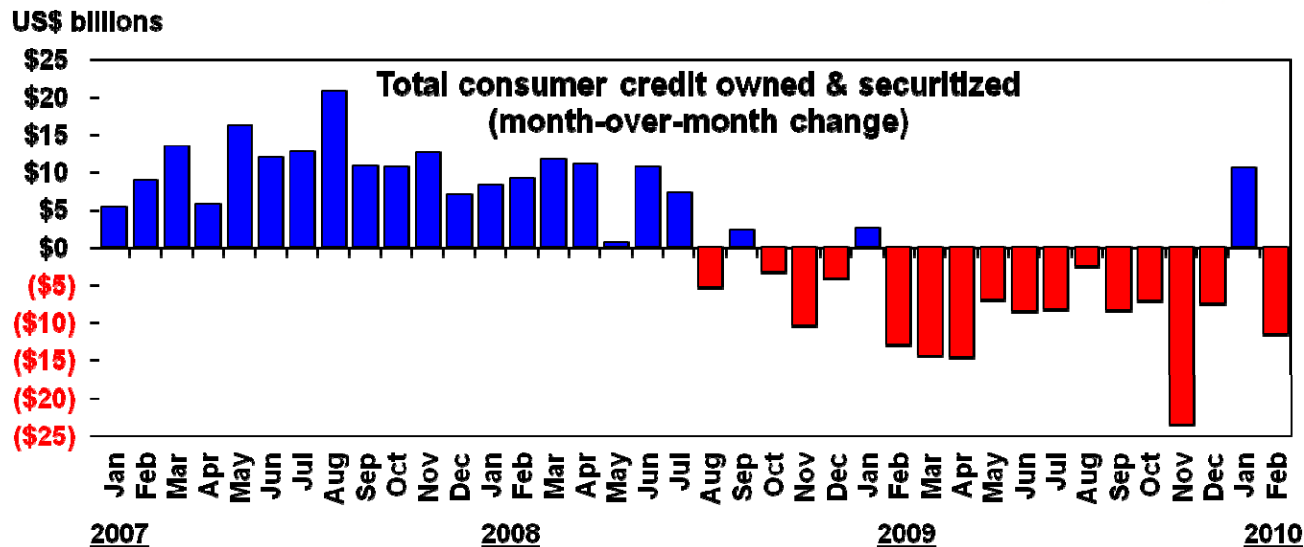
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Source: Federal Reserve.

American consumers reluctant to take on additional debt

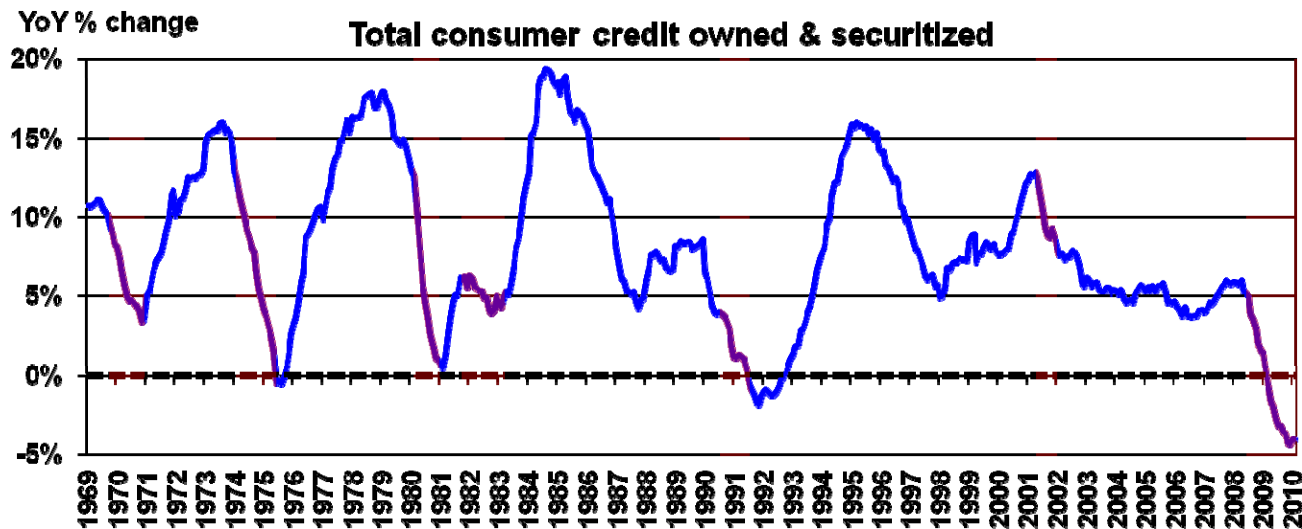
Monthly: Jan. 2007 – Feb. 2010



Source: Federal Reserve.

Does trough in consumer credit signal end of Great Recession?

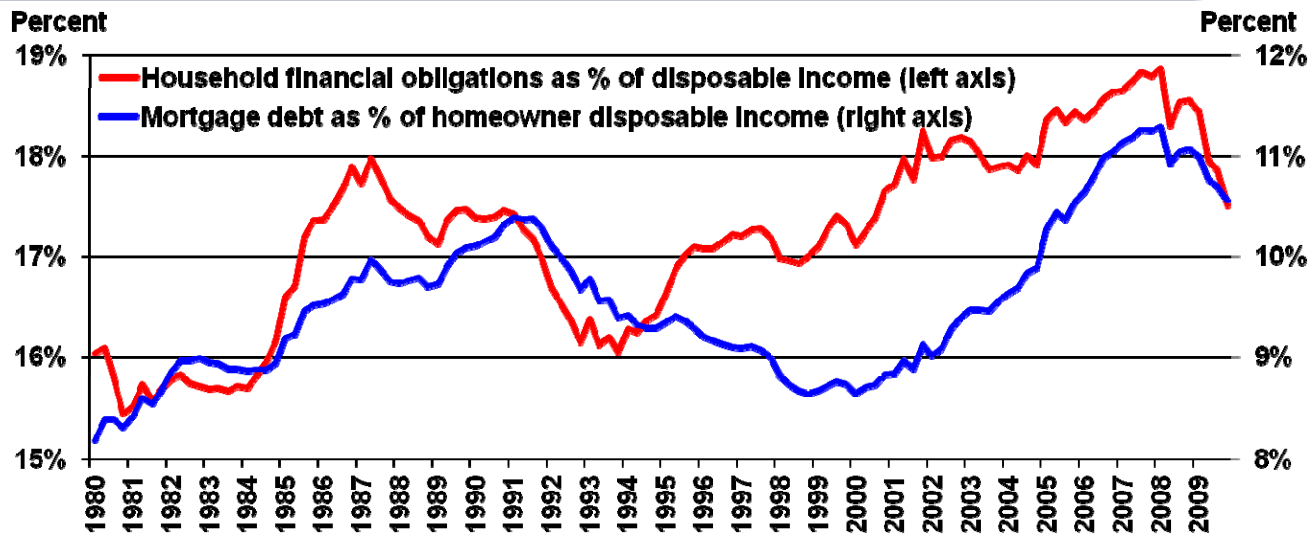
Monthly: Jan. 1969 – Feb. 2010



Sources: Federal Reserve, NBER.

Households now deleveraging

Quarterly: 1980Q1 – 2009Q4



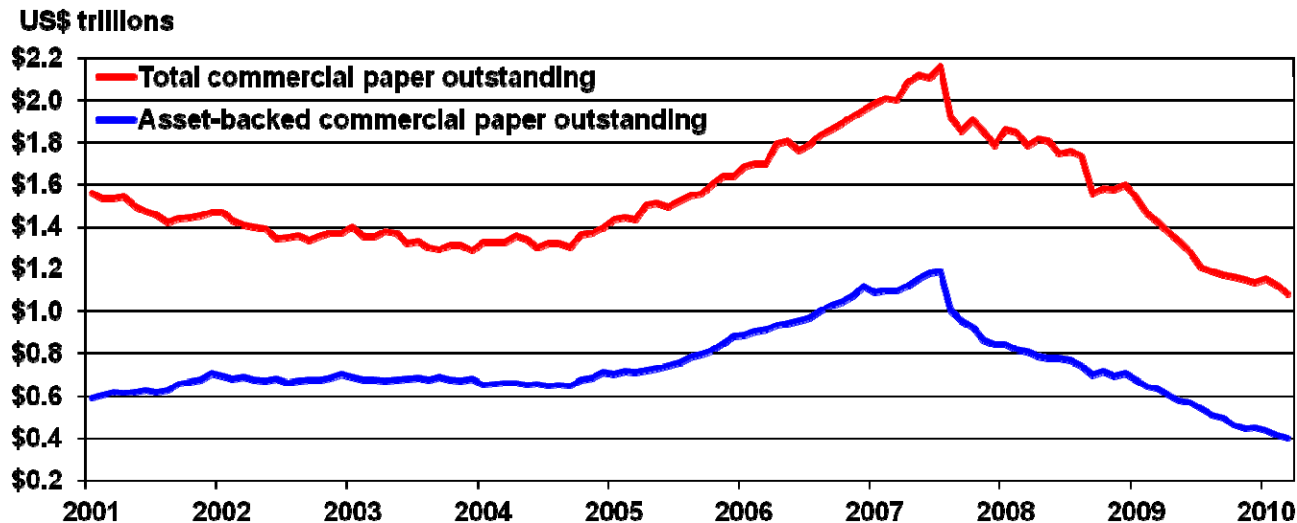
Source: Federal Reserve.

U.S. commercial paper market still in free-fall

Monthly: Jan. 2001 — Mar. 2010



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Source: Federal Reserve.