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July 12, 2012

Foreign Bank Living Will Submissions

Less than two weeks ago, the four largest foreign banks operating in the US (Barclays, Credit Suisse, Deutsche Bank and UBS) submitted their US living wills to the regulators. These were due on July 1, 2012. The public portion is available on the FDIC and Fed websites.

We understand that the regulators have assembled large teams to go over the plans and the first rounds of meetings are underway.

We have gone over the public portions of these reports and there is no consensus among the banks as to how to make the presentations although the basic headings are the same. It is clear that the banks did not sit down together and decide how to make this filing. Each of the banks has taken a different approach to the reporting and has emphasized different items in their presentations.

The remaining filers may be able to benefit from using tailored plans and these will reduce the need for the detail provided by the large banks. The smaller banks will benefit the most from this option. In addition, many foreign countries have already required their banks to provide or begin work on resolution plans.

What items are being highlighted in these reports?

Conflicts with Home Country Resolution Plans

Each bank has mentioned the ongoing difficulties of harmonizing the US Plan with the global plan. DB went to great lengths to describe the blizzard of committees and teams involved with the US and global efforts.

Difficulties in gathering and reporting information

Barclays went so far as to put a disclaimer on the cover of their report to the effect that the

information provided might be inaccurate.

Assumptions appear to be somewhat inconsistent

CS assumed that all of its material entities failed at the same time. DB did not appear to make this same assumption and used the idea of a German government transfer scheme to a bridge bank.

Descriptions and Determinations of Critical Operations seem to vary

Only UBS admitted that the Fed helped them identify what their critical operations were.

Descriptions of Material Operations Varied widely

UBS gave an elaborate discussion of their derivatives activities and hedging whereas Barclays devoted a few paragraphs to the subject. UBS said they use derivatives for trading whereas DB seems to say they use derivatives only for hedging or to help their customers. Barclays focused on IT activities and support whereas the other banks gave IT short shrift. CS spent more time on its funding activities than the other banks

Self-congratulations seem at a minimum

Only DB put their catch phrase “Passion to Perform” on their report. DB included a number of gratuitous comments including how strong their plan was and how they could face the future with confidence. They announced that they are committed to maintaining sound capitalization. They seemed to suggest that they would have done this living will even if the Fed didn’t require it, terming this process as a “sensible step” in their own planning process. Barclays seemed to complain that they were subject to a “significant” body of rules and these have affected their financial results. CS admitted they were doing this because they had to and despite the unlikely event of their failure.

Capital Considerations were not Widely Discussed

DB spent the most time on capital and discussed their emphasis on capital raising. The other banks gave little attention to this subject

Support Units Turn out to be Critical Operations

The banks with centralized support functions treat these as critical even though they have no customer facing functions.

R.C.A.