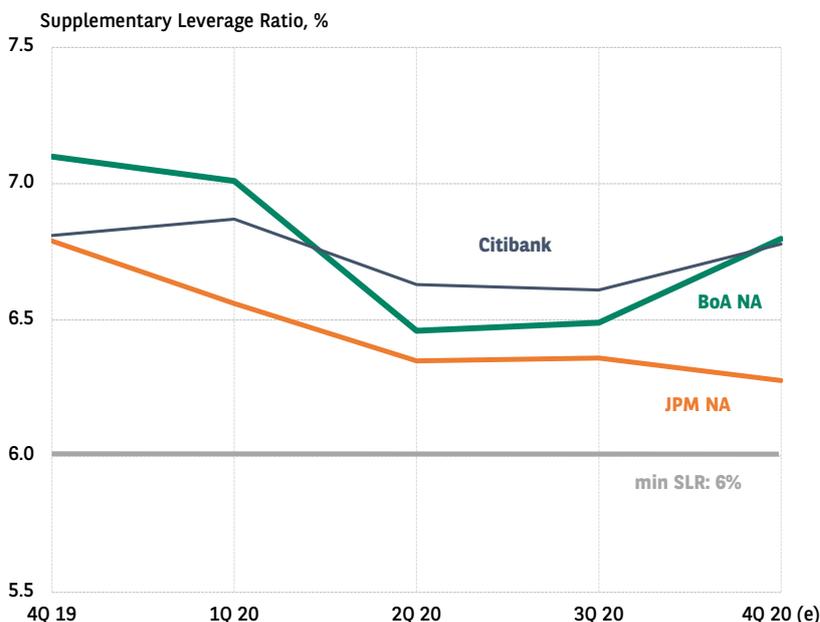


3 February 2021

## US BANKS: PLANS FOR SHARE BUYBACKS BEFORE THE DOWNSIZING OF BALANCE SHEETS

Céline Choulet

Leverage ratios at the 3 biggest US depository institutions



SOURCES : FFIEC CALL REPORTS, SNL, BNP PARIBAS

Since March 2020, exceptional measures to bolster liquidity have resulted in a significant expansion of banks' balance sheets. Fearing that leverage requirements could hamper the transmission of monetary policy and affect banks' abilities to lend to the economy, the authorities have temporarily relaxed such requirements in the US (until 31 March) and in the eurozone (until 27 June).

In the US, although the temporary exclusion of reserves and Treasuries from leverage exposure (the denominator of the Basel ratio) is automatic for large bank holding companies, it is optional for their depository institution subsidiaries. The latter can only make use of the exclusion if they submit their dividend payment plans (including intra-group dividends) for supervisory approval. Although their balance sheets carry the bulk of the reserves of consolidated groups, as well as a substantial share of Treasuries, a large majority of subsidiaries did not take up this option last year. Earnings for the year and the ban on parent companies buying back shares have contributed to strengthening capital (Tier 1 capital, the numerator of the ratio), with the result that leverage ratios have deteriorated only slightly.

However, the Fed has now lifted the ban on share buybacks, for the first quarter of 2021 at least. Reserves and thus, other things being equal, banks' balance sheets could significantly increase again this year (with the Fed continuing to purchase securities at the rate of USD 120 bn per month and the Treasury's plans to reduce its holdings with the Fed by USD 800 bn). The ambitious capital distribution plans announced in recent days (share repurchases and dividend payments) could therefore require measures to slim down balance sheets in order to preserve leverage ratios and at the same time the scores for the systemic importance of certain groups.

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