
The GARP Risk Index

Third Quarter 2010

The GARP Risk Index

Key Findings

- The Third Quarter 2010 Risk Index increased to 111, from 109 in the Second Quarter, with significant upward pressure in several of the eight individual market factors.
 - Sovereign risk continues to have an impact on the divergence between the GARP Risk Index and individual perceptions about overall systemic risk, but the gap has narrowed.
 - Leverage remains the leading driver of systemic risk perceptions, US macro economic factors, banking health and now commodity prices are close behind with equity values and operational risk the least influential.
 - US unemployment, the US current account deficit, personal debt, consumer confidence and GDP growth are the macro indicators of most concern.
 - Certain components of the Dodd-Frank Financial Reform Legislation are viewed favorably, but overall the new Basel III accord is perceived globally as having a potentially greater impact on stabilizing the banking system and mitigating systemic risk.
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The GARP Risk Index: An Overview

Tracking global perceptions

The GARP Risk Index tracks current global perceptions of eight individual risk factors capable of triggering a systemic risk crisis in the United States. Harnessing the expertise and market perceptions of Financial Risk Manager (FRM®) certification holders, the GARP Risk Index provides an informed assessment of current US market conditions and their impact on factors that may directly or indirectly contribute to or signal a build-up (or otherwise) in system-wide risk in the US.

Defining systemic risk

Systemic risk may be best summarized as an economic shock or event(s) that triggers a market dislocation and creates illiquidity with the potential for failure of one or more institutions, jeopardizing the integrity of the local or global financial system. Fallout from the recent global financial crisis has created an acute awareness of systemic risk in financial markets.

The GARP Risk Index monitors current global perceptions of eight individual risk factors capable of triggering a systemic risk crisis in the United States.

Methodology

GARP's FRM Program is the recognized global benchmark for financial risk management education and certification, with more than 24,000 certified FRM holders around the world. FRM holders from 62 countries participated in the Q3 2010 GARP Risk Survey, providing an assessment on a scale of 1 to 5 (1 - "Very Little Risk" and 5 - "Very Risky") of their current perceptions about individual US market factors that directly or indirectly influence financial system risk in the US. These factors include:

- Health of the macro-economy
- Financial leverage
- Credit spreads
- Health of the US banking system
- US equity market valuations
- Overall traded market volatility
- Commodity prices and operational risk

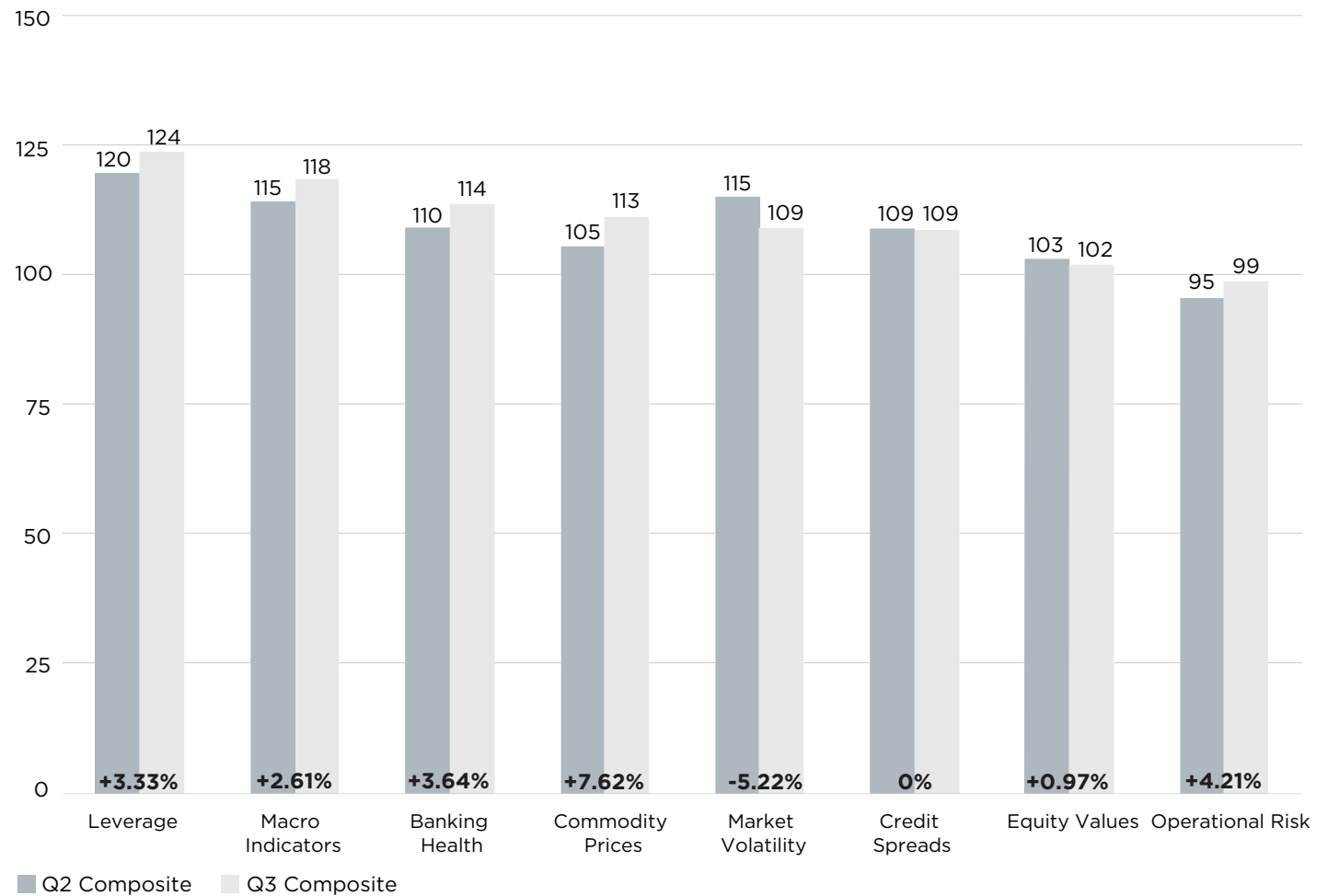
Survey results were used to construct the GARP Risk Index, a scaled index based on the risk-weighted average responses for the eight market factors surveyed. (Refer to Appendix A for a description of each factor). In addition, we asked FRM holders to respond to six additional questions in an effort to provide enhanced depth and color to the analysis. (Refer to Appendix B)

GARP Risk Index value climbs to 111 – an increase over the first two quarters of 2010

The GARP Risk Index increased to 111 in the third quarter from 109 in the previous two quarters. The increase comes as the combination of highly leveraged public and private balance sheets and sluggish economic growth continue to put pressure on US markets. Chart 1 illustrates notable increases in several of the factors surveyed which all contributed to the quarterly change in the Index. Leverage (up 3.33%), macro-economic indicators (up 2.61%) and banking system health (up 3.64%) were perceived to have the greatest risk. Concern about commodity prices grew significantly, highlighted by a 7.62% increase in the aggregate risk composite. It is not clear from survey results exactly which commodities are responsible for the change or why global risk managers are concerned. It is plausible they are expressing concern that an historic rise in price across many commodities is inflating a new asset bubble. A significant drop in market volatility (down 5.22%) and increase in operational risk (up 4.21%) are also noteworthy. Perhaps global speculation that US mid-term elections would create a power shift in Washington and rumors of a second major Fed quantitative easing program (“QE2”) were enough to calm markets in Q3, while the potential impact of unintended consequences and new reporting requirements associated with regulatory reform may have crystallized in the minds of risk managers.

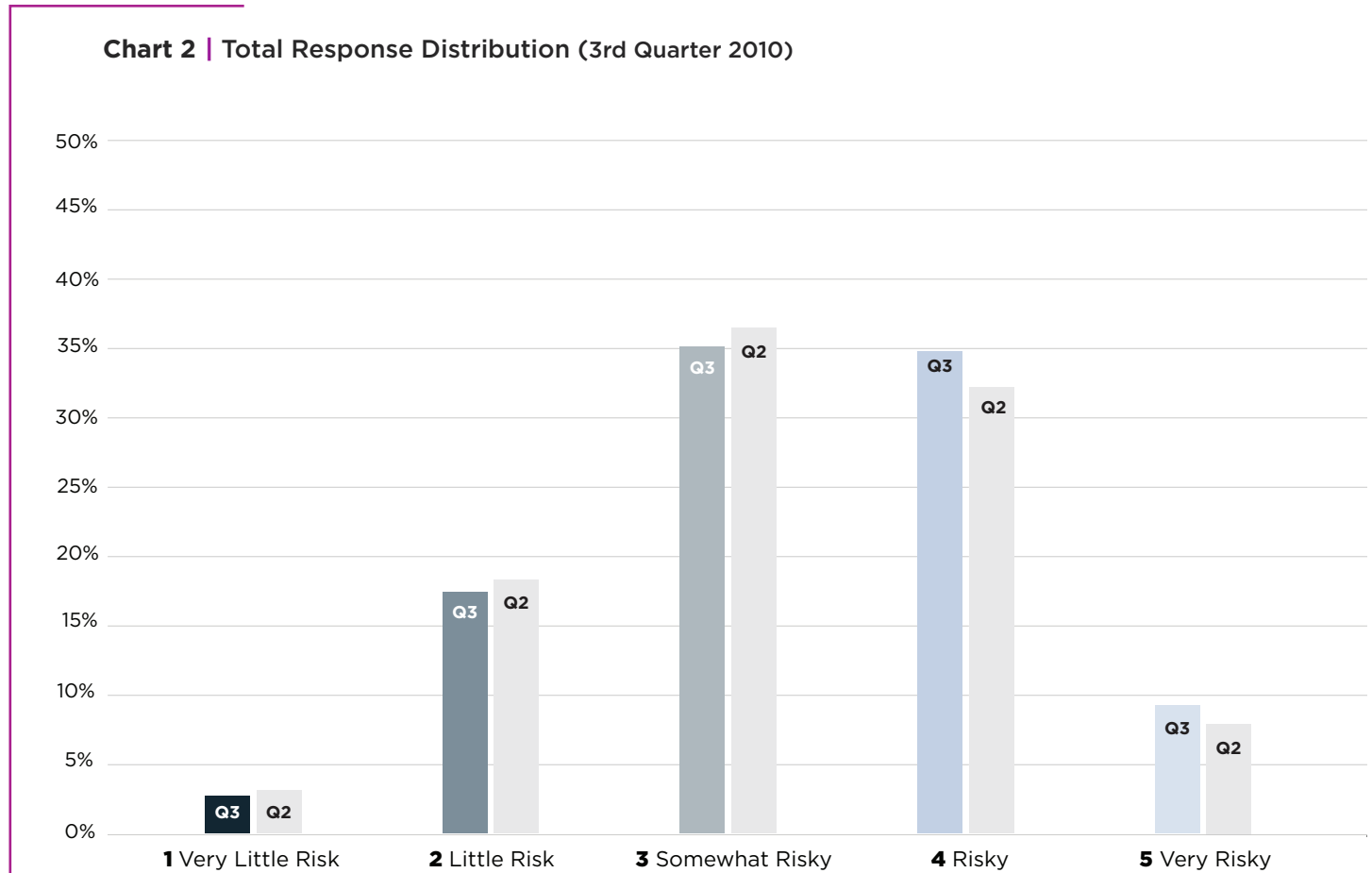
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Chart 1 | Quarterly Change in Market Factor Composites (3rd Quarter 2010)



GARP Risk Index value climbs to 111 – an increase over the first two quarters of 2010

Chart 2 illustrates the response distribution for all factors across the risk scale. Disregarding a slight shift out the risk spectrum, the overall distribution looks quite similar to Q2.



Overall systemic risk assessment improves

Global concern about systemic risk in the US financial markets increased in Q3. Chart 3 illustrates the shift in individual risk perceptions that are clearly weighted further out the risk spectrum, producing a risk weighted composite of 115 vs. 111, in Q2.

The divergence between the GARP Risk Index and the overall systemic risk assessment (111 vs. 115) is illustrated in Chart 4.

Chart 3 | Systemic Risk Assessment (3rd Quarter 2010)

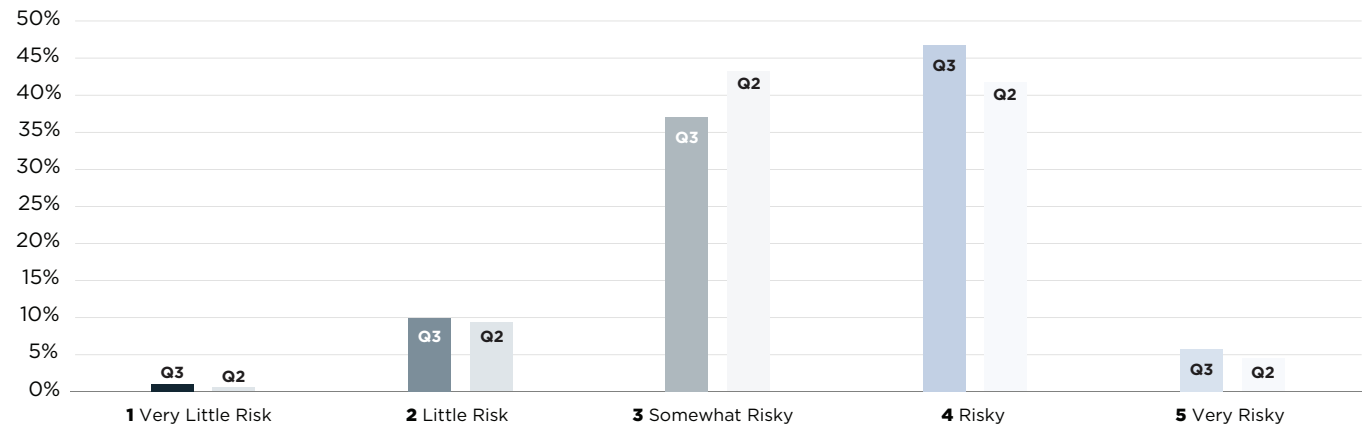
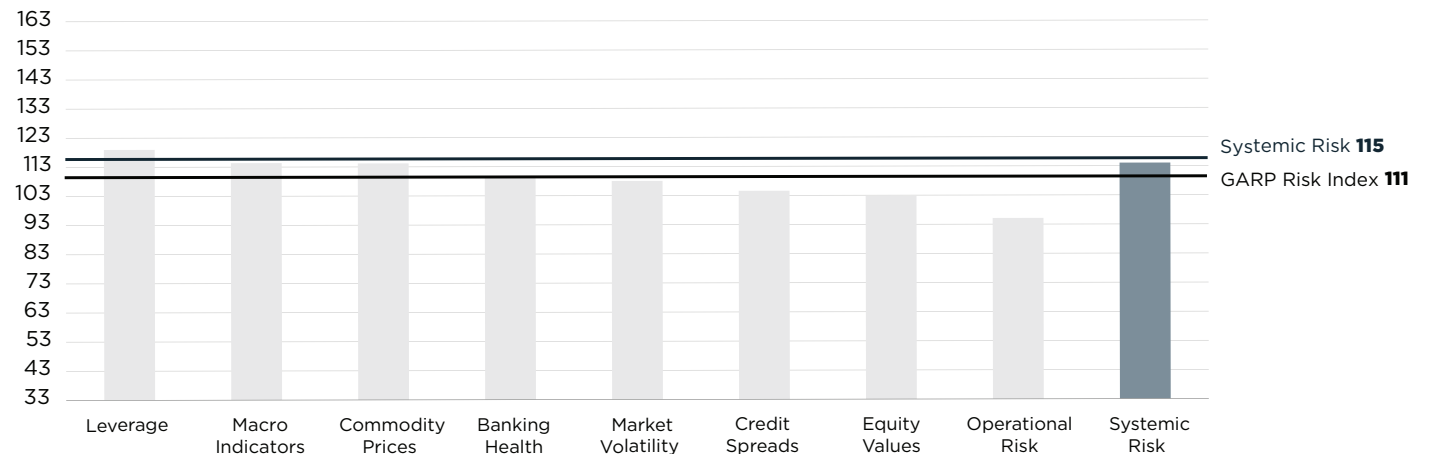
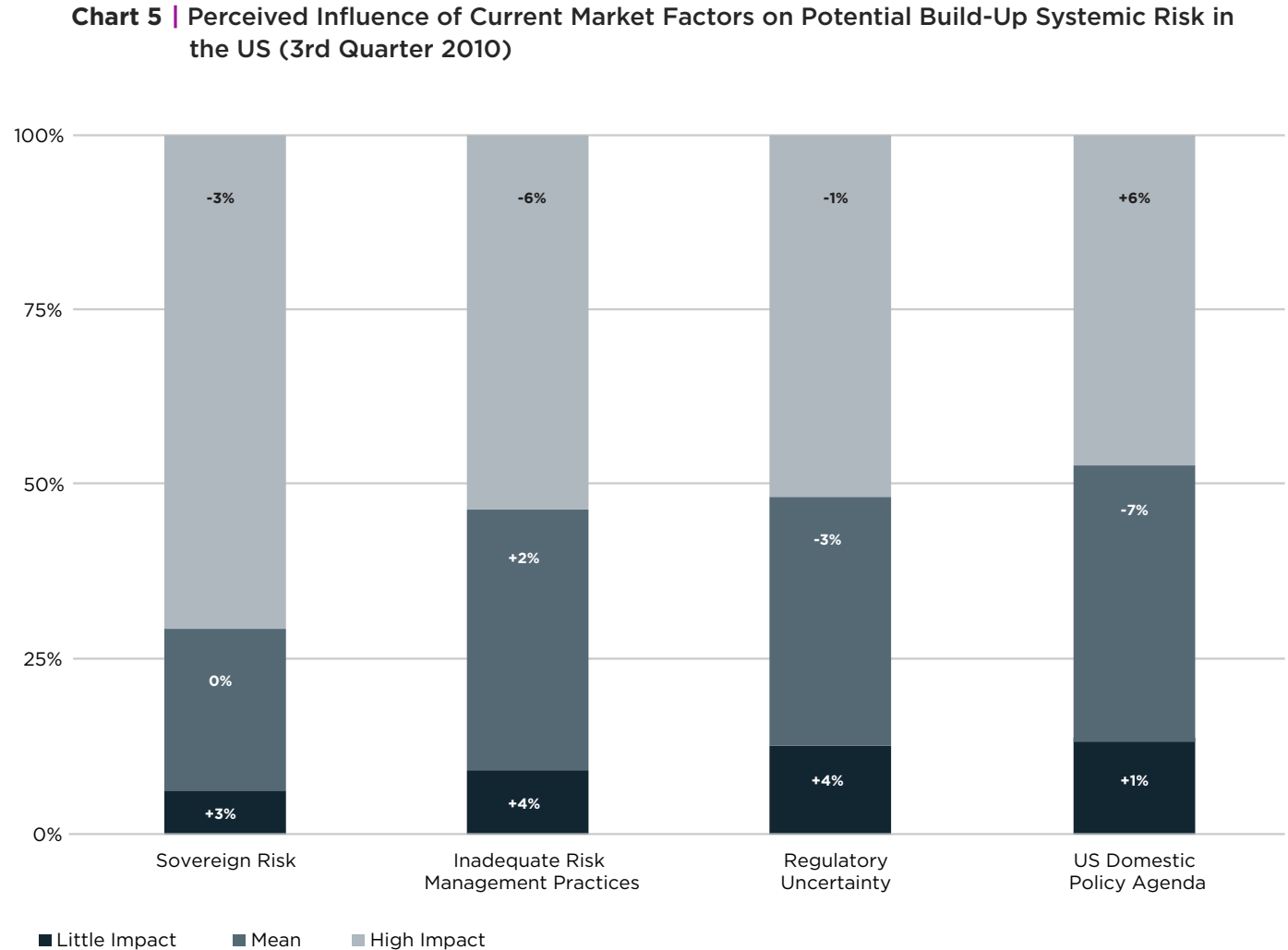


Chart 4 | GARP Risk Index Components vs. Systemic Risk (3rd Quarter 2010)



Causes for divergence — sovereign risk and US domestic policy?

To help explain this divergence we again queried respondents about four factors (sovereign risk, risk management practices, regulatory uncertainty and US domestic policy) which are all highly correlated with our original eight market factors, and would logically have an impact on systemic risk. Chart 5 illustrates the response distribution for each factor along with the shift in perceptions (measured as percentage changes) in Q3. Anxiety about sovereign risk, weak risk management practices and regulatory uncertainty all waned with a significant increase in concern about the impact of current US domestic policies.



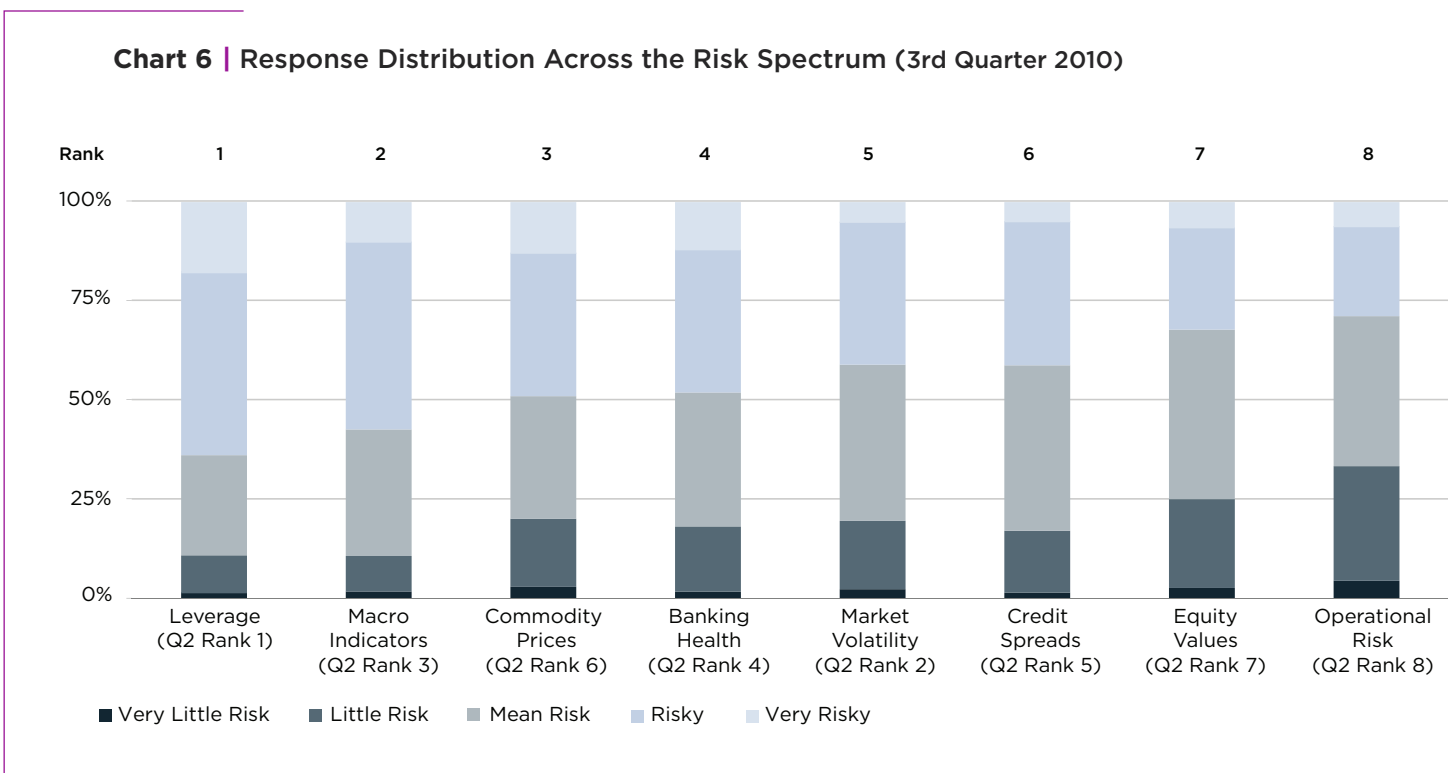
¹ Data represents survey responses distributed around the mean.

² Rate 1 to 5 (1= very weak influence and 5 = very strong influence) the influence each of the following factors currently have in creating a potential build-up of systemic risk in the US.

Leverage is most risky for the 3rd straight quarter; operational risk remains lowest on the risk scale

Chart 6 is a summary of the response distribution for all market factors in Q3 along with their respective Q2 rankings. The change in individual rankings is a direct reflection of the response migration across risk categories within each factor. 64% and 57% of risk managers assigned the highest risk rating to financial leverage and macro-economic conditions in Q3 - not surprising given consumer and sovereign debt remains high and the US economy stubbornly weak. As we previously alluded to, the 9% decrease (50% to 41%) in respondents who ranked market volatility in the highest two risk categories was of little surprise and is consistent with a more than 10 point decrease in the CBOE Volatility Index (VIX) during the quarter. Markets stabilized throughout the summer in response to “debt restructurings” in Greece. More recently, reports of relatively strong corporate earnings, speculation that Republicans would gain power leading up to the US mid-term elections, and rumors (now fact) of a second major quantitative easing program to be orchestrated by the Federal Reserve combined to help generate optimism and investor demand for financial assets.

The 12% shift (37% to 49%) in risk managers who now believe commodity prices are of significant concern is surprising. It is not



clear exactly what is behind the growing anxiety about commodities. Given current low interest rates, dollar weakness and a general lack of viable investment alternatives, the steady rise in price and volatility across many commodities may indicate an asset bubble is inflating. Alternatively, risk managers could simply be expressing concern about the potential impact rising commodity prices may have on inflation

and economic growth. Regardless of its root cause, concern about commodities warrants deeper analysis in Q4.

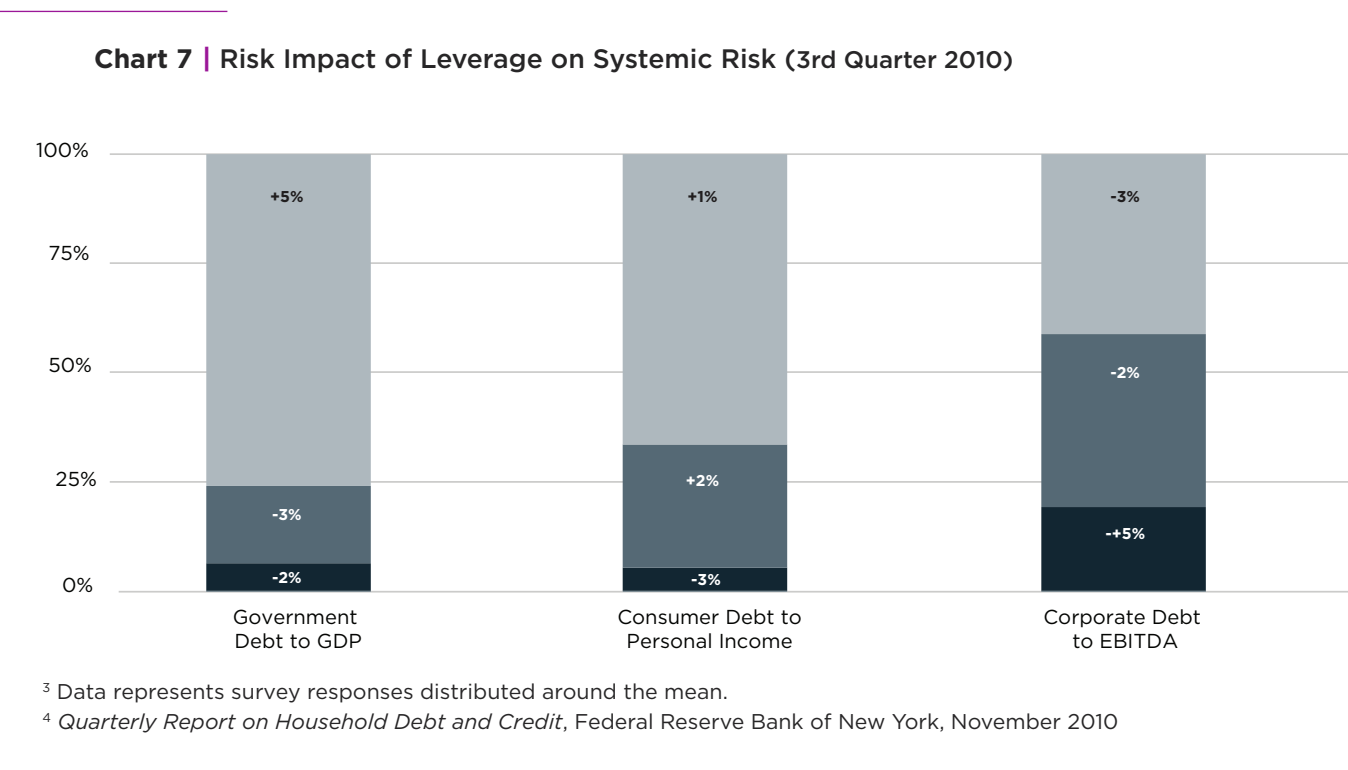
Interpreting current perceptions about operational risk remains a challenge. On one hand the percentage of risk managers who assigned the highest risk rankings to operational risk remained relatively flat between Q2 and Q3. Conversely, the

aggregate operational risk composite increased 4.21% in Q3 (after falling more than 3% in Q2) due to a subtle shift out the risk spectrum. In our view this is likely a reaction to the unintended consequences and potential operational risks implicit in the new Dodd-Frank financial regulations. We'll add this one to our list of items for further drill down next quarter.

Leverage indicators

We tried again to create a more granular view of several factors that could directly influence systemic risk in Q3. Using data compiled from the additional survey questions listed in Appendix B, we attempted to interpret current views about leverage, macro indicators, banking health and credit spreads.

Chart 7 depicts the distribution of market risk perceptions related to three important leverage indicators. The perceived threat (High to Very High) of government debt, as a percentage of GDP, was considered the most significant factor, followed closely by consumer borrowing relative to personal income. Looking at the subtle shift in risk perceptions within each factor helps add color to the analysis. For example, there was a 5% (71% to 76%) increase in respondents who rated the impact of government debt “High” to “Very High” which perhaps supports a view that global risk managers would like to see a modification to current US fiscal policies. Consumer borrowing relative to personal income also remains a concern, though only 1% more (66% to 67%) of total respondents in Q3 felt it would have a significantly high impact on systemic risk. Survey results seem to be contradicted by the recently released Federal Reserve Bank of New York report on US



Consumer debt which indicated a 0.9% (approximately \$110B) decrease in household debt during Q3. This may just be a timing lag or may be a more deeply rooted concern among risk managers about the potential for future US delinquencies and defaults in the face of economic weakness and high unemployment. Risk managers appear sanguine

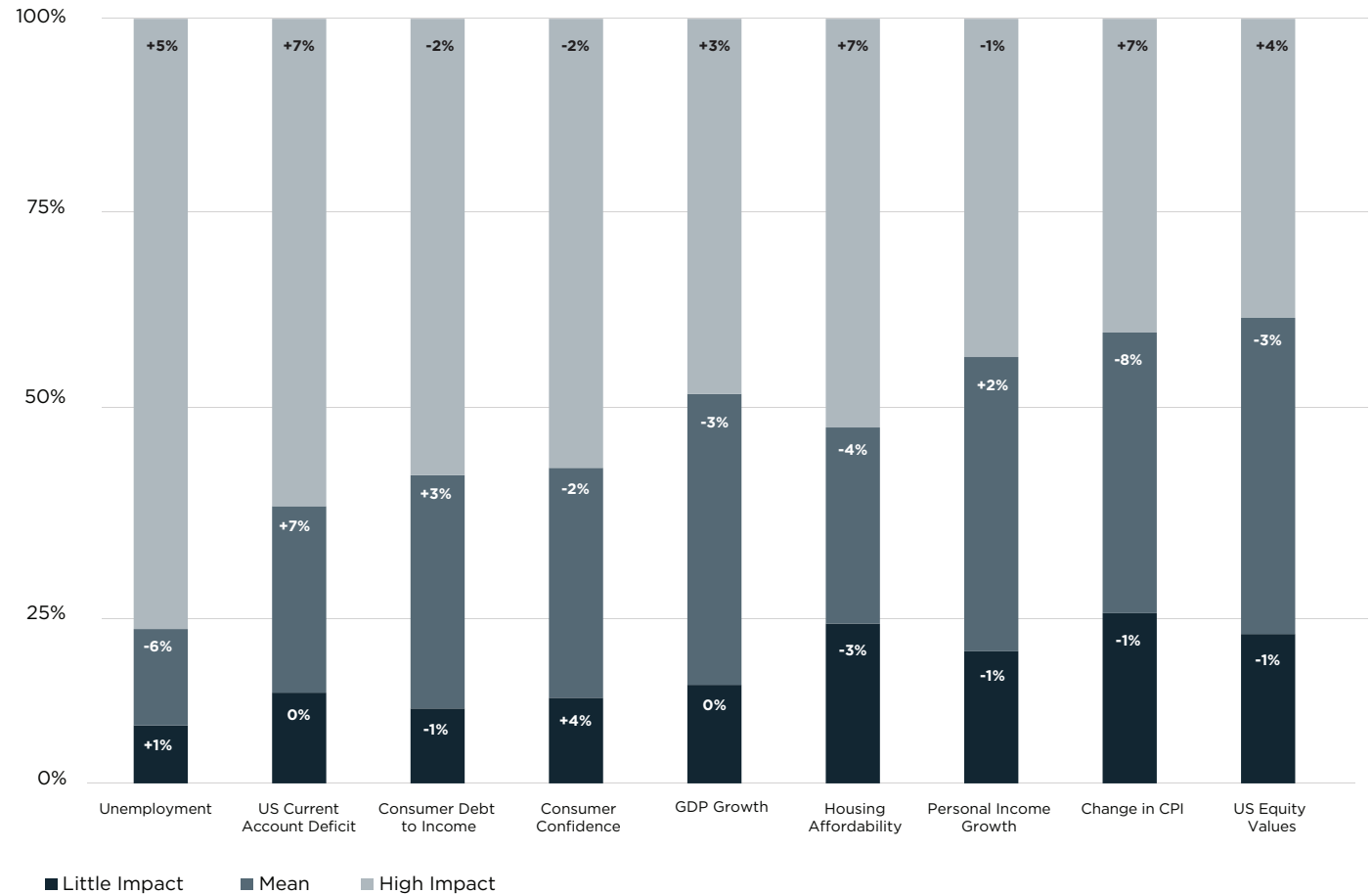
about corporate debt as evidenced by a 3% decrease (44% to 41%) in respondents who rated its potential impact on systemic risk as “High” to “Very High.” This may simply be a reaction to reports of cash flush corporate balance sheets or a view that US corporate treasurers are prudently refinancing corporate balance sheets in the current interest rate environ-

ment. More than \$200B in corporate debt was reportedly issued in Q3 (highest since Q2 2008) which undoubtedly includes a large chunk of refinancing activity. The trend bears watching as it would be easy for many firms to overreach when such relatively cheap financing is available.

Macro indicators

The US unemployment rate has hovered above 9% for more than 18 months so it was not a surprise that roughly 5% more (74% to 79%) of global risk managers expressed significant concern about the potential influence a jobless recovery would have on systemic risk in the US. Other notable shifts in risk sentiment within the macro-indicators include a 7% increase (55% to 62% of respondents) in the US trade imbalance, a 7% increase (36% to 43%) in housing affordability and a 7% increase (34% to 40%) associated with inflation risk. With respect to inflation risk, an inference may be drawn that weakness in the US dollar is really the underlying concern. This is something we will examine more thoroughly in Q4.

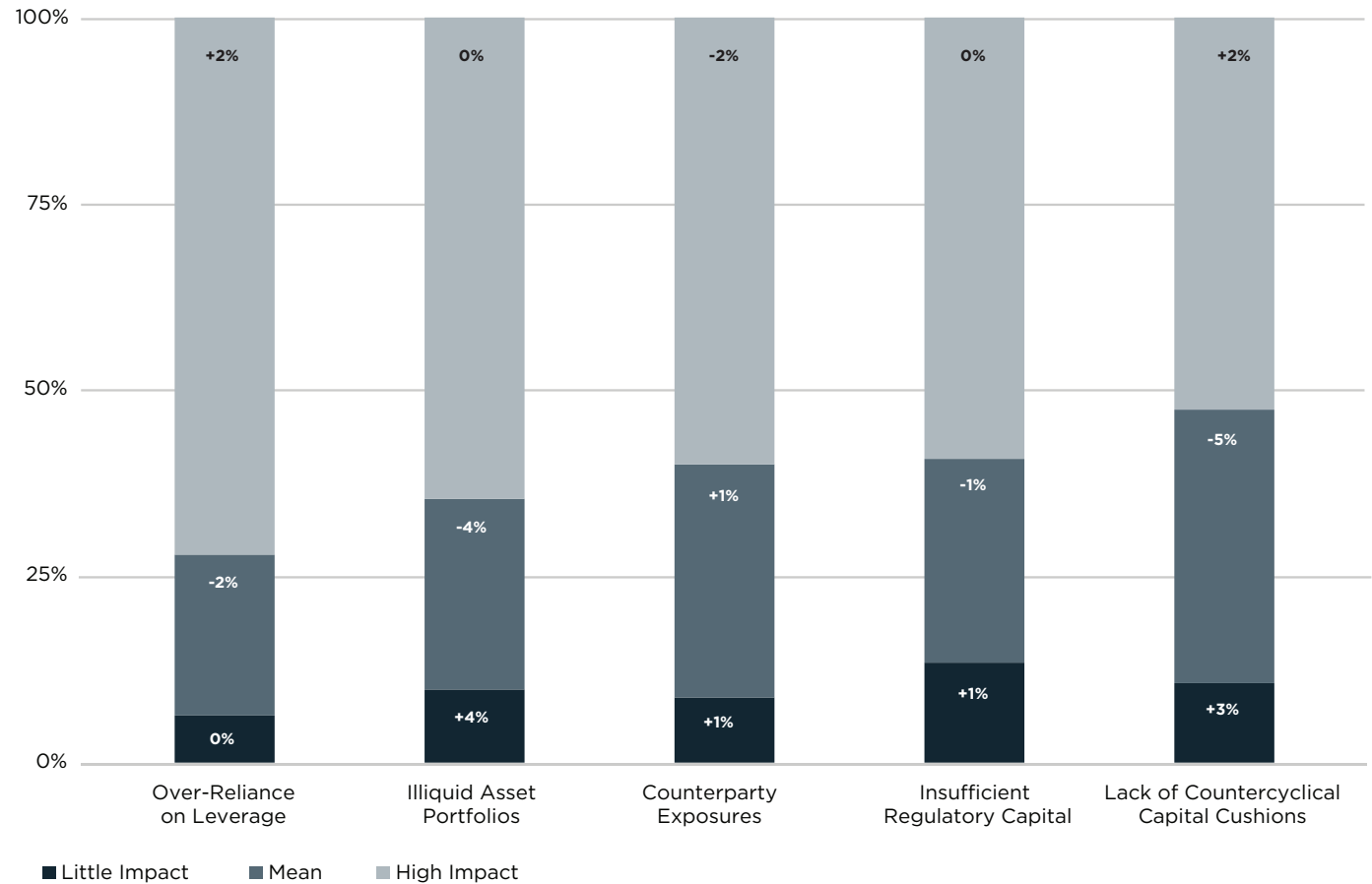
Chart 8 | Importance of Current Economic Indicators in Predicting or Influencing US Systemic Risk (3rd Quarter 2010)



US banking system

The health of the US banking/financial system continues to draw measurable attention and concern among risk managers. As illustrated in Chart 9, more than 50% of Q3 respondents felt all five financial system factors surveyed currently have a “High” to “Very High” potential impact on systemic risk. There was surprisingly little-to-no-change in the distribution of risk perceptions within any individual factor despite the announcements of Dodd-Frank and Basel III respectively. This may just be a timing lag as final regulatory rules and capital requirements will take some time to implement.

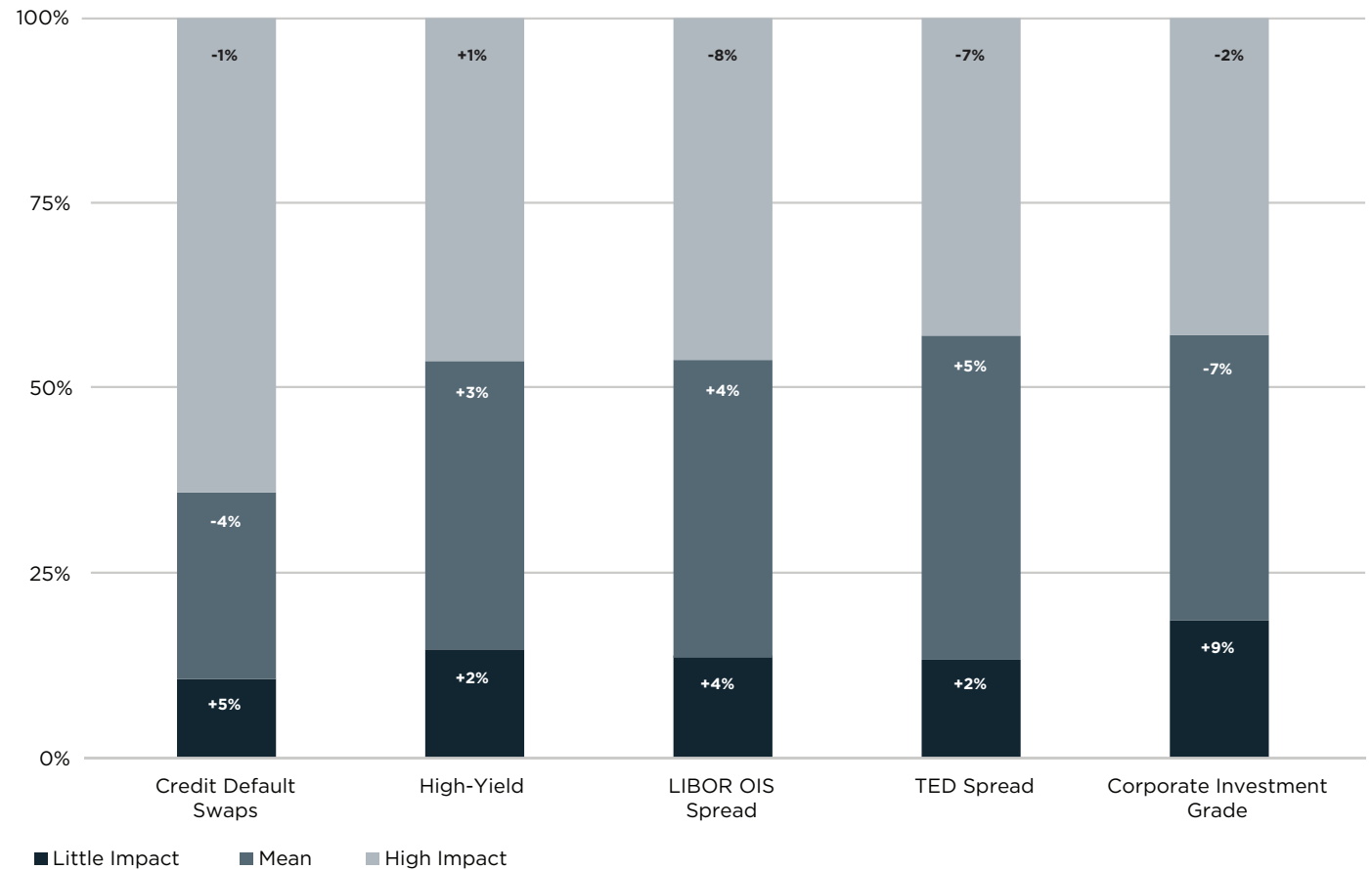
Chart 9 | Current Impact of Financial System Factors in Potential Build-up of US Systemic Risk (3rd Quarter 2010)



Credit spreads

Credit spreads are an important predictor of financial crisis. Chart 10 illustrates risk perceptions about several specific spreads. While there was little change in the view of most of the spreads it is important to point out rather significant shifts in risk perceptions associated with the LIBOR OIS and TED spreads respectively. There was an 8% decrease (54% to 46%) in respondents who put a “High” to “Very High” predictive value on the LIBOR OIS spread. This may be a reaction to Basel III and its potential impact on strengthening the global banking system. Moreover, a 7% reduction (50% to 43%) in respondents who currently rate the predictive value of the TED spread as “High” to “Very High” may be an indication that market perceptions about counterparty credit risk continues to improve.

Chart 10 | Current Importance of Various US Credit and Interbank Spreads in Predicting US Systemic Risk (3rd Quarter 2010)

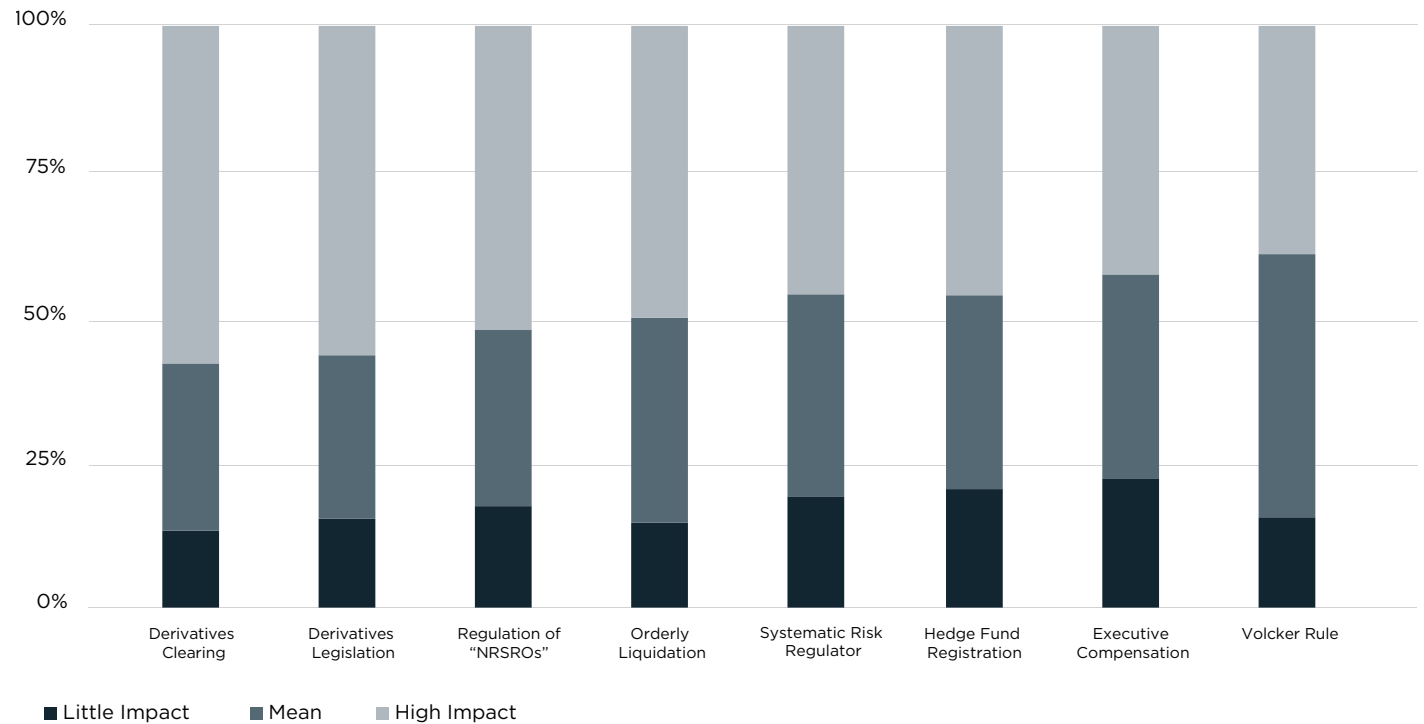


Regulation and its potential impact: Dodd-Frank

With the formal announcement of two new major regulatory initiatives in Q3, we would be remiss if we did not gauge the impact of Dodd-Frank and Basel III through the eyes of the global risk management community. Chart 11 illustrates the perceived impact each major section of Dodd-Frank would have on stabilizing the US banking industry and mitigating US systemic risk.

Despite a great deal of political posturing a majority (more than 56%) of FRM holders surveyed felt strongly that derivatives legislation, including the trading and clearing of “standardized” products on a centralized exchange will help stabilize the market. We can only assume this is the result of a reduction in credit and settlement risk that is expected to come from control clearing, but what about the potential increase in liquidity risk when higher margin requirements become a reality? This is of particular concern among non-financial counterparties like energy producers and distributors who rely heavily on exchange traded products to replicate physical positions and/or hedge normal operating activities, but have balance sheets rich in long-term, capital intensive assets with minimal liquidity.

Chart 11 | Dodd-Frank Financial Reform — Impact on Banking System Stabilization and Systematic Risk Mitigation (3rd Quarter 2010)



It's a bit surprising that less than 40% of global risk managers felt the Volcker Rule would have a significant impact in mitigating systemic risk. A large number of

respondents appear to be unsure of its impact as 46% of risk managers assigned the Volcker Rule a mean rating. Perhaps this indicates market skepticism about the

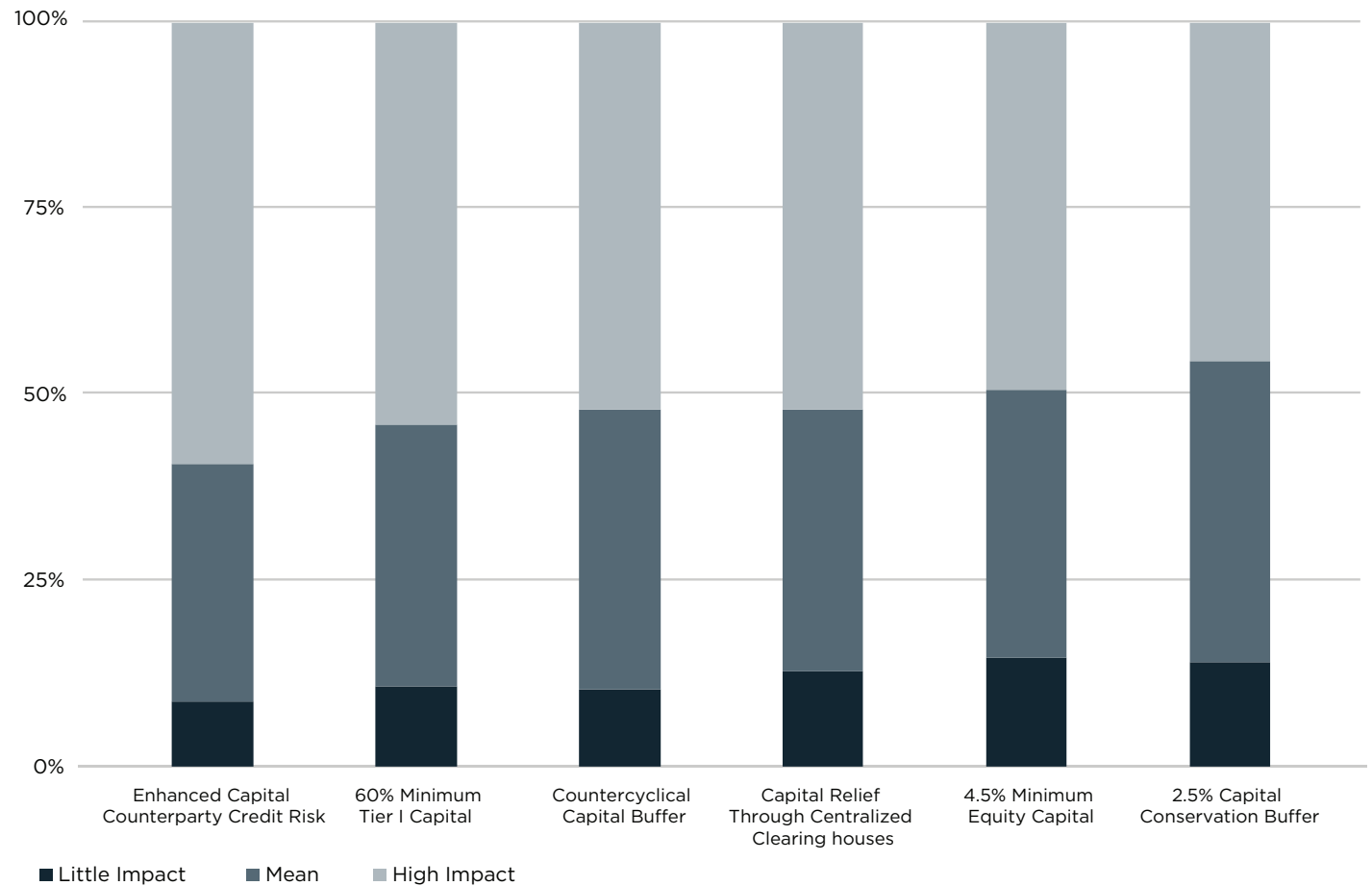
ability of regulators to effectively curb the creativity of profit-driven individuals who manage Wall Street trading businesses.

Regulation and its potential impact: Basel III capital requirements

We separately asked global risk managers to assess the impact of the three main components of Basel III: new regulatory capital requirements; new credit enhancements; and new market and liquidity risk enhancements.

Chart 12 summarizes the perceived impact the proposed new capital requirements will have on stabilizing the US financial system and mitigating systemic risk. Nearly 60% of global risk managers think the adoption of enhanced capital requirements for counterparty credit risk will have a significant impact. More than 50% of respondents expressed optimism that new Tier 1 capital requirements (54%), the adoption of countercyclical capital buffers (52%) and centralized clearing (52%) will all have a meaningful impact.

Chart 12 | Basel III Reform Impact of New Capital Requirements (3rd Quarter 2010)



Regulation and its potential impact: Basel III credit risk enhancements and market risk components

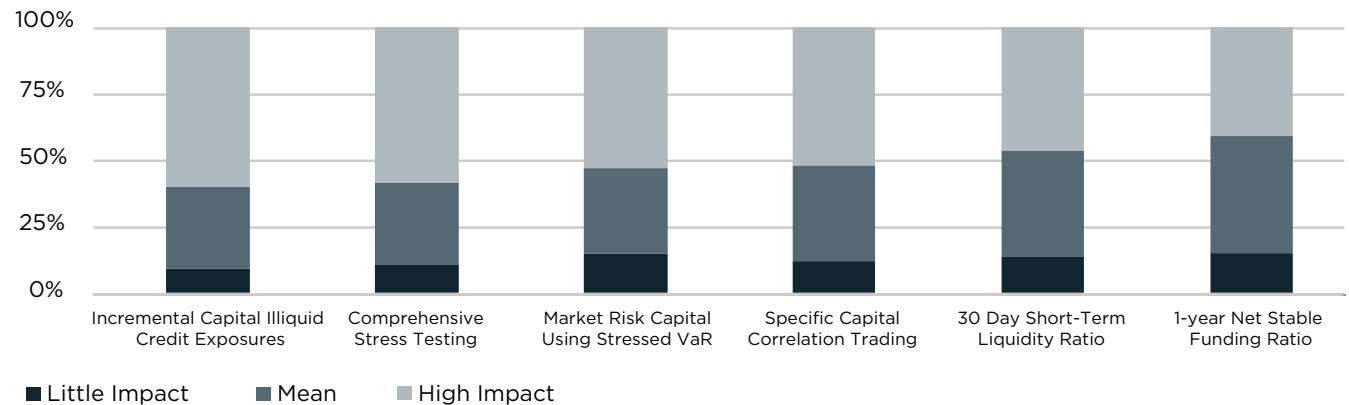
The Basel III credit risk enhancements were designed primarily with the structured product market in mind, unsurprising given that the securitization market was used extensively by the banking community for risk transfer activities leading up to the sub-prime mortgage crisis. Roughly 61% of global risk managers felt that the creation of a separate capital “carve-out” for the treatment of securitizations and re-securitizations would affect markets favorably, while more than 55% held the view that enhanced credit analysis for rated transactions along with a prohibition against sponsor guarantees would go a long way towards stabilizing the financial system in general, and the shadow banking system in particular.

Well over 50% of global risk managers surveyed indicated that new capital requirements for illiquid exposures, development of comprehensive risk measurement models (including model-based capital charges) and adoption of capital requirements for correlation trading activities would have a significant impact on the future stability of the US financial system. Much was made of the need for better liquidity risk management tools in the wake of the financial crisis, but the response to the new requirement that banks maintain a 30 day short term liquidity ratio was a bit underwhelming as only 47% of survey participants felt it would have a meaningful impact on financial stability.

Chart 13 | Basel III Reform - Impact of New Credit Enhancements (3rd Quarter 2010)



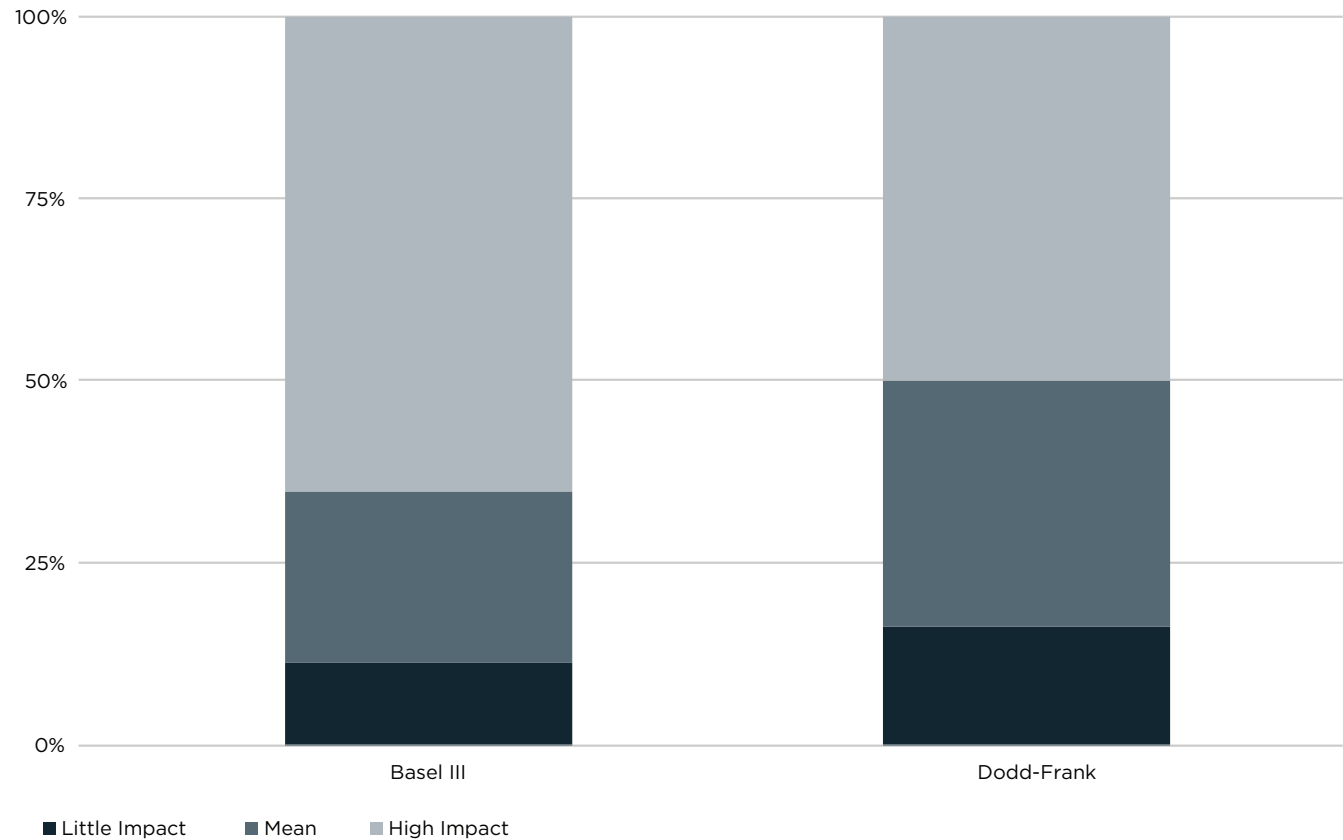
Chart 14 | Basel III - Perceived Impact of New Market and Liquidity Risk Enhancements (3rd Quarter 2010)



Basel III vs. Dodd-Frank: Basel III perceived to have a higher impact

When independently comparing the impact of Basel III and Dodd-Frank, global risk managers appear to be more optimistic about the eventual impact Basel III will have in stabilizing the US financial system, and mitigating systemic risk. More than 60% of risk managers indicated a belief that Basel III will have a high impact vs. 46% who expressed a similar sentiment about Dodd-Frank. We should also note that close to 40% of respondents rated the impact of Dodd-Frank a three (equivalent to the mean on our rating scale). It is impossible to judge whether this indicates uncertainty about the regulatory initiative in general or a lack of confidence in its potential impact.

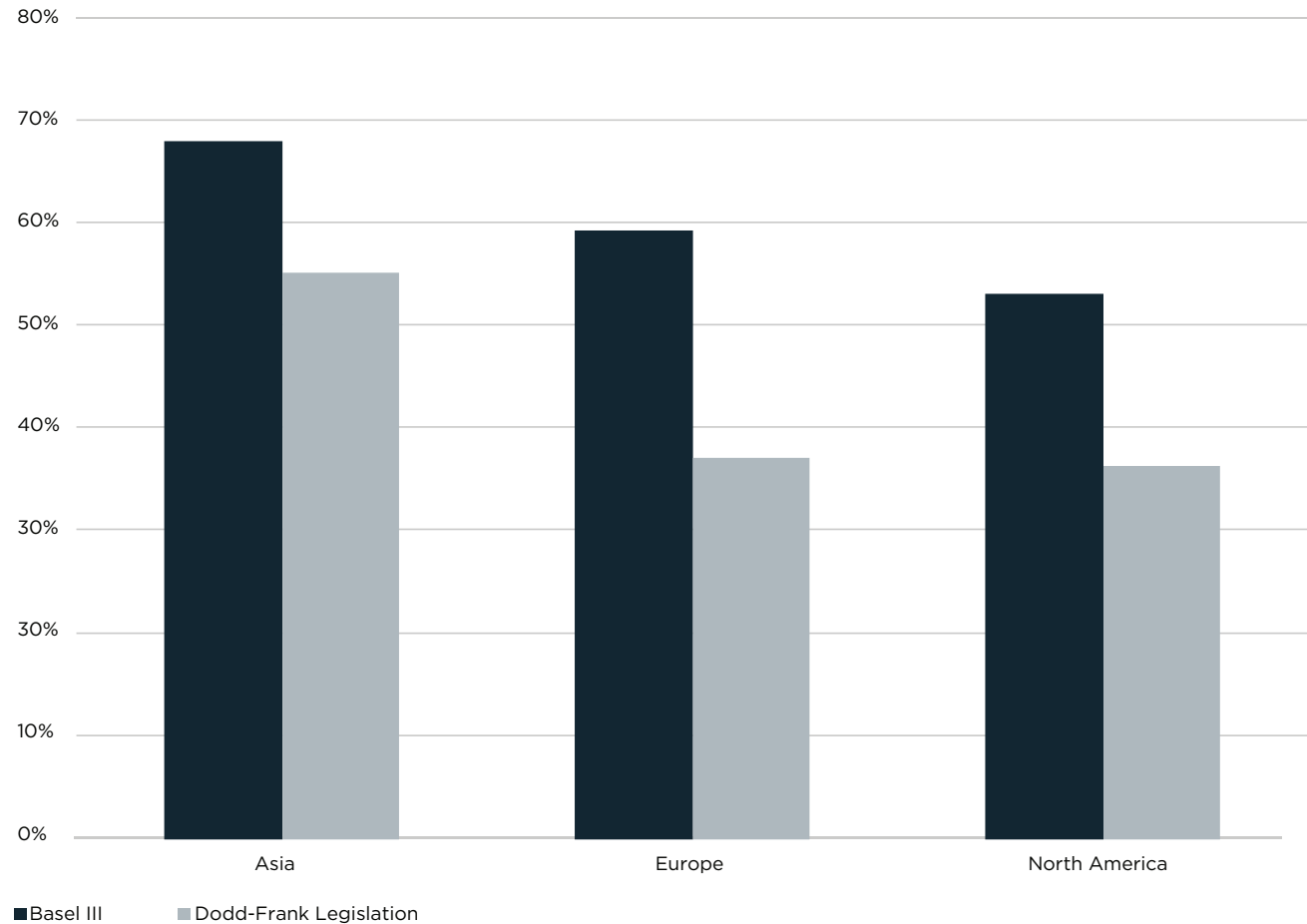
Chart 15 | Basel III vs. Dodd-Frank - Perceived Impact of New Regulatory Programs (3rd Quarter 2010)



Asia optimistic about new regulation; North American risk managers don't expect Dodd-Frank to have major impact

Perceived optimism about regulation was again highest throughout Asia with nearly 70% and 60% of Asian risk managers of the view that Basel III and Dodd-Frank respectively will have a high impact on financial system stabilization in the U.S. Risk managers throughout Europe (roughly 60%) and North America (53%) were optimistic about the impact of Basel III, but did not appear as hopeful about Dodd-Frank with only 37% of respondents in each locale taking the view that the comprehensive regulatory package would have a major impact on financial stability.

Chart 16 | Basel III vs. Dodd-Frank - Global Perceptions of Regulatory Impact (3rd Quarter 2010)



Risk professionals in China remain least concerned about systemic risk; Germans now more pessimistic

Data from the 11 countries with the highest proportion of total responses (approximately 80%) was analyzed to better understand risk perceptions across geographies. Table 1 summarizes the average risk weighted response for each market factor. The highest and lowest risk assessment for each factor has been highlighted in white and purple respectively.

The potential impact of leverage on systemic risk was the highest ranked factor in six of the eleven countries included in this analysis (Canada, India, Singapore, Spain, Switzerland and the UK) while commodity price risk ranked highest in China, Hong Kong and Taiwan. It comes as no surprise that US based FRM holders continue to be apprehensive about the economy, and unemployment in particular with 80% of US based FRM holders of the view that the lack of opportunity for employment has a potentially high to very high influence on risk in the US. Risk professionals in China continue to be the least concerned about US systemic risk while apprehension among FRM holders in Germany escalated greatly in Q3, marked by a significant increase in anxiety over the health of the US banking system.

Table 1 | Aggregate US Risk Assessment vs. Current US Systemic Risk Assessment (3rd Quarter 2010)

Market Factor	Canada	China	Germany	Hong Kong	India	Singapore	Spain	Switzerland	Taiwan	UK	US
Macro Indicators	3.61	3.35	3.59	3.56	3.44	3.63	3.39	3.73	3.56	3.48	3.65
Leverage	3.84	3.48	4.06	3.57	3.64	3.67	4.11	3.95	3.69	3.91	3.64
Credit Spreads	3.33	3.22	3.71	3.26	3.29	3.33	3.28	3.28	3.21	3.30	3.31
Banking Health	3.44	3.15	4.18	3.36	3.27	3.48	3.61	3.45	3.38	3.65	3.53
Equity Values	3.36	2.99	3.12	3.22	2.95	3.07	3.06	2.68	2.98	3.17	3.00
Market Volatility	3.33	3.27	3.00	3.43	3.20	3.22	3.06	3.05	3.44	3.22	3.17
Commodity Prices	3.61	3.54	3.24	3.61	3.16	3.37	3.22	3.48	3.73	3.17	3.35
Operational Risk	3.13	2.88	3.12	2.88	3.11	3.00	2.56	3.13	2.90	3.39	2.98
Aggregate Risk Assessment	3.45	3.24	3.50	3.36	3.26	3.35	3.28	3.34	3.36	3.41	3.33
Systemic Risk Assessment	3.66	3.26	3.59	3.46	3.44	3.48	3.56	3.58	3.42	3.57	3.51

Note: Representation of average survey responses based on a scale of 1 to 5 (1 Very Little Risk and 5 Very Risky)

Appendix A

Survey of Eight Individual Market Factors

The following eight market factors were assessed by FRM holders from 62 countries to construct the GARP Risk Index:

Overall Health of the Economy	Rate the impact on risk to the US financial system of various leading, lagging and coincident US economic indicators.
Leverage in the Economy	Assess the potential impact on financial system risk in the US of total current economic leverage, including consumer and business credit.
Credit Spreads	Considering all current credit spreads, including corporate investment grade, high yield and credit default swap spreads and rate their effect on financial system risk in the US.
Health of Banking/ Financial System	Assess the current state of the US banking and financial system, including the influence of newly adopted and proposed regulations on financial system risk.
Equity Market Valuations	Indicate perceived risk to the US financial system of current equity market valuations measured across the major US equity indices.
Overall Traded Market Volatility	Considering volatility indicators across each major traded market including equities, fixed income, commodities and foreign exchange, and assess their overall impact on system wide risk in US financial markets.
Commodity Prices	Indicate the perceived risk to the US financial system of commodity valuations with particular focus on precious metal and energy markets.
Operations/Infrastructure/ Strategic Risk	Assess the influence on overall risk to the US financial system of current operational and infrastructure exposures, and strategic business objectives currently adopted by US financial institutions.
Overall Systemic Risk	Maintaining any or all of the above and any other consideration you might have, please rate your assessment of risk in the US financial markets today.

Appendix B

Survey of Additional Factors Impacting Systemic Risk

In our effort to develop a deeper understanding of the underlying factors you considered in your responses to the above questions please provide your assessment of the following.

I. Rate 1 to 5 (1 = very weak influence and 5 = very strong influence) the importance each of the following US economic indicators currently have in predicting or influencing US systemic risk.

- | | | | | | |
|--|----|----|----|----|----|
| a. Unemployment | •1 | •2 | •3 | •4 | •5 |
| b. US current account deficit | •1 | •2 | •3 | •4 | •5 |
| c. Change in Consumer Price Index (CPI) | •1 | •2 | •3 | •4 | •5 |
| d. GDP Growth | •1 | •2 | •3 | •4 | •5 |
| e. Ratio of consumer credit to personal income | •1 | •2 | •3 | •4 | •5 |
| f. Personal income growth | •1 | •2 | •3 | •4 | •5 |
| g. Housing affordability | •1 | •2 | •3 | •4 | •5 |
| h. Consumer confidence | •1 | •2 | •3 | •4 | •5 |
| i. US equity values | •1 | •2 | •3 | •4 | •5 |

II. Rate 1 to 5 (1 = very little risk and 5 = very high risk) the risk you currently associate with each of the following measures of leverage in the US and their potential impact on systemic risk.

- | | | | | | |
|----------------------------------|----|----|----|----|----|
| a. Government debt/GDP | •1 | •2 | •3 | •4 | •5 |
| b. Consumer debt/personal income | •1 | •2 | •3 | •4 | •5 |
| c. Corporate debt/EBITDA | •1 | •2 | •3 | •4 | •5 |

III. Rate 1 to 5 (1 = very little predictive value and 5 = very high predictive value) the importance each of the following US credit and interbank spread relationships currently have in predicting systemic risk in the US.

- | | | | | | |
|-------------------------------|----|----|----|----|----|
| a. Corporate investment grade | •1 | •2 | •3 | •4 | •5 |
| b. High-Yield | •1 | •2 | •3 | •4 | •5 |
| c. Credit Default Swaps | •1 | •2 | •3 | •4 | •5 |
| d. TED Spread | •1 | •2 | •3 | •4 | •5 |
| e. LIBOR OIS Spread | •1 | •2 | •3 | •4 | •5 |

IV. Rate 1 to 5 (1 = very little impact and 5 = very high impact) the impact each of the following bank/financial system factors currently have in creating a potential “build-up” of systemic risk in the US.

- | | | | | | |
|---|----|----|----|----|----|
| a. Regulatory uncertainty | •1 | •2 | •3 | •4 | •5 |
| b. Global sovereign risk – “debt crisis” | •1 | •2 | •3 | •4 | •5 |
| c. Insufficient risk management practices | •1 | •2 | •3 | •4 | •5 |
| d. US domestic policy agenda | •1 | •2 | •3 | •4 | •5 |

V. Rate 1 to 5 (1 = very weak influence and 5 = very strong influence) the influence each of the following factors currently have in creating a potential build-up of systemic risk in the US.

- | | | | | | |
|--------------------------------|----|----|----|----|----|
| a. Derivatives regulation | •1 | •2 | •3 | •4 | •5 |
| b. Volcker Rule | •1 | •2 | •3 | •4 | •5 |
| c. Too big to fail legislation | •1 | •2 | •3 | •4 | •5 |
| d. Systemic risk regulator | •1 | •2 | •3 | •4 | •5 |

VI. Rate 1 to 5 (1 = very little impact and 5 = very high impact) the impact each of the following broad components of the Dodd-Frank legislation will have in stabilizing the health of the US banking/financial system and mitigating systemic risk.

- | | | | | | |
|---|----|----|----|----|----|
| a. Creation of systemic risk regulator | •1 | •2 | •3 | •4 | •5 |
| b. Adoption of orderly liquidation procedures | •1 | •2 | •3 | •4 | •5 |
| c. Hedge fund registration and reporting requirements | •1 | •2 | •3 | •4 | •5 |
| d. Volcker rule | •1 | •2 | •3 | •4 | •5 |
| e. Derivatives legislation | •1 | •2 | •3 | •4 | •5 |
| f. Derivatives payment, clearing and settlement supervision | •1 | •2 | •3 | •4 | •5 |
| g. Regulation of credit rating agencies (“NRSROs”) | •1 | •2 | •3 | •4 | •5 |
| h. Executive compensation rules including ‘claw-back provision’ | •1 | •2 | •3 | •4 | •5 |

VII. Rate 1 to 5 (1 = very little impact and 5 = very high impact) the impact each of the following Basel III capital requirements, to be phased in by 2019, will have in stabilizing the health of the US banking/financial system and mitigating systemic risk.

- | | | | | | |
|--|----|----|----|----|----|
| a. 4.5% minimum common equity capital ratio | •1 | •2 | •3 | •4 | •5 |
| b. 2.5% capital conservation buffer | •1 | •2 | •3 | •4 | •5 |
| c. 6.0% minimum Tier 1 capital requirement | •1 | •2 | •3 | •4 | •5 |
| d. 10.5% minimum regulatory capital requirement | •1 | •2 | •3 | •4 | •5 |
| e. Countercyclical capital buffer | •1 | •2 | •3 | •4 | •5 |
| f. The introduction of loss absorbing, contingent, capital instruments | •1 | •2 | •3 | •4 | •5 |

VIII. Rate 1 to 5 (1 = very little impact and 5 = very high impact) the impact each of the following Basel III credit risk enhancements will have in stabilizing the health of the US banking/financial system and mitigating systemic risk.

- | | | | | | |
|--|----|----|----|----|----|
| a. Separate capital treatment for securitizations and re-securitizations | •1 | •2 | •3 | •4 | •5 |
| b. More rigorous credit analysis for externally rated securitizations | •1 | •2 | •3 | •4 | •5 |
| c. Prohibition against using self-guarantees in securitized transactions | •1 | •2 | •3 | •4 | •5 |
| d. Changing credit conversion factors for liquidity facilities | •1 | •2 | •3 | •4 | •5 |
| e. Enhanced capital requirements for counterparty credit risk | •1 | •2 | •3 | •4 | •5 |
| f. Capital relief on settlements through centralized clearinghouses | •1 | •2 | •3 | •4 | •5 |

IX. Rate 1 to 5 (1 = very little impact and 5 = very high impact) the impact each of the following Basel III market and liquidity risk enhancements will have in stabilizing the health of the US banking/financial system and mitigating systemic risk.

- | | | | | | |
|--|----|----|----|----|----|
| a. Market risk capital requirements based on stressed VaR calculation | •1 | •2 | •3 | •4 | •5 |
| b. More comprehensive stress test modeling | •1 | •2 | •3 | •4 | •5 |
| c. Specific capital charge for assets in the correlation trading portfolio | •1 | •2 | •3 | •4 | •5 |
| d. Incremental capital charge for illiquid credit exposures | •1 | •2 | •3 | •4 | •5 |
| e. 30 day short-term liquidity ratio | •1 | •2 | •3 | •4 | •5 |
| f. 1-year Net Stable Funding Ratio | •1 | •2 | •3 | •4 | •5 |

X. Rate 1 to 5 (1 = very little impact and 5 = very high impact) the impact Dodd-Frank Financial Reform Legislation and Basel III will each have in stabilizing the health of the US banking/financial system and mitigating systemic risk.

- | | | | | | |
|---------------------------|----|----|----|----|----|
| a. Dodd-Frank Legislation | •1 | •2 | •3 | •4 | •5 |
| b. Basel III | •1 | •2 | •3 | •4 | •5 |

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