

**Bank Reform and Volcker Rule:
Consensus Support to Prohibit Banks from Investing (Hedge
Funds) But No Consensus on Bank Size in Canada or U.S.**

**BDO Dunwoody Weekly CEO/Business Leader Poll
By COMPAS in *Canadian Business*
For Publication February 1, 2010**



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1.0 Overview

CEOs and business leaders on the COMPAS business panel agree overwhelmingly that a revised version of the *Glass-Steagall Act of 1933* be re-enacted, as advocated by former U.S. Federal Reserve Chair Paul Volcker. Almost all panelists want retail banks to be prohibited from acting as hedge funds.

By contrast, there is no consensus at all about legislation to control bank size in either Canada or the U.S. Nor is there any consensus about the desirability of the Canadian government's encouraging the formation of more banks in our country.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine under sponsorship of BDO Dunwoody LLP.

2.0 Detailed Findings

Table 2a displays evidence of a consensus favouring re-enactment in the United States of the *Glass-Steagall Act of 1933*, as recommended by Paul Volcker, while table 2b shows much divided opinion about legislation limiting bank size in the U.S. Table 2c shows divided opinion about allowing bank merger in Canada or encouraging the formation of more bank in this country.



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Table 2a: (Q1) There's been talk in the United States about re-enacting a version of the Glass-Steagall Act of 1933 that President Obama calls the Volcker Rule, named after former Fed Chair Paul Volcker. The Glass-Steagall Act of 1933 forbade banks from investing their own money but this law was repealed in 1999. Paul Volcker recommends that the law once again prohibit commercial banks from acting like investment houses or hedge funds. On a 7 point scale where 1 means disagree strongly and 7, agree strongly, how much do you agree with this proposal?

Mean	7	6	5	4	3	2	1	DNK
5.6	28	28	19	6	4	3	2	10

Table 2b: (Q2) There's also talk about introducing stronger legislation to limit the size of any one U.S. bank. Do you think that legislation should set a strong, enforceable ceiling on the size of any one bank...

NO RANDOMIZATION

	%
At the present size of the largest bank	26
At a smaller size	27
At a larger size	5
That there be no ceiling on bank size	39
Don't know or no opinion	4



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Table 2c: (Q3) Turning to Canada, on a 7 point scale where 1 means disagree strongly and 7, agree strongly, how much do you agree that the federal government should... RANDOMIZE

	Mean	7	6	5	4	3	2	1	DNK
Allow mergers among the present banks so that they could become more significant global players	4.4	10	22	24	15	7	11	10	1
Use legislation to encourage the formation of more banks	4.0	8	15	15	22	19	11	8	2

The following verbatims provide a nuanced sense of panel opinion:

The key issue is to not allow banks to recklessly trade in customer deposits. A bank holding company should be allowed to have a "safe" bank subsidiary and a Hedge Fund (as an example), but can't use the balance sheet of the safe bank to borrow for the hedge fund, i.e. two entirely different capital structures.

The issue is compensation; boards have to make unpopular decisions in unison to cut back pay levels. No one should be getting a \$20 million bonus for trading with someone else's money.

Why would we want fewer bigger banks with more exposure to world wide financial risk? How could that possibly help Canada and the Canadian Banking system?

Oversight and regulation that allows actions to address risky behavior when necessary are more important than arbitrary limits on size and mergers. The key to good regulation is to manage excessive behavior without getting in the way of improving efficiency.



Seems Canadian banks have done well under existing laws. Why fix what isn't broken? If there is a move to allowing mergers then we need to open the arena up to more competition.

The better alternative to limiting the size of banks in the U.S. would be to ensure robust competition matched by effective oversight. All of the tools necessary to have prevented the recent meltdown in the U.S. were already available to regulators - they simply didn't use them as they were intended.

It seems our current system of bank regulation did not allow for the size of disaster that struck the U.S., UK and others. If it ain't broke, don't fix it.

Bank diversity is essential for small business survival. One bank seldom fits all commercial needs. Global fast money transfers, fast working capital, multi currency accounts, liaison with EDC, understanding of technology opportunities are seldom found in one bank.

The blockage of bank mergers in Canada does little except stifle competition. That is why Canadians pay more service fees than Americans do. But in no way should we adopt a more "American" system of banking here.

3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted January 27 - 28, 2009. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public,



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surveys of n=110 are deemed accurate to within approximate 9.4 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.

