# Wall Street analysts discuss paradigm shift: Breaking Up Banks

At least three Wall Street analysts this week have written reports about the possibility of the biggest banks breaking themselves up to boost profitability, signaling that investors may be more willing to embrace an idea that is still toxic to some lawmakers in Washington.

New regulations in areas like capital requirements are imposing higher costs on the biggest investment banks, raising doubts about their future profitability. These questions make the biggest global investment banks "un-investable," wrote analyst Kian Abouhossein, who himself works at JPMorgan, one of the biggest global investment banks.

Breaking up large "universal banks," could unlock value for shareholders, Wells Fargo analyst Matthew Burnell wrote in a report on Wednesday. These "financial supermarkets" typically house investment banking, consumer banking and wealth management operations under one roof.

If these banks broke up into smaller companies, the value of the parts would likely be greater than the current whole, Burnell wrote. He estimated that universal banks currently trade at 25 to 30 per cent below publicly traded financial firms that focus on just one business.

CLSA analyst Mike Mayo, a long-time critic of big banks, wrote on Tuesday: "Almost every investor that we speak with indicates that a breakup would be bullish for the stocks."

"While there is skepticism as to whether a full breakup will occur, there is an undercurrent of shareholders who would support such a move," he added.

The 2010 Dodd-Frank financial reform law was designed to end government bailouts of too-big-to-fail banks by creating mechanisms for winding down large financial institutions.

But some US legislators are looking to add rules that would impose extra costs on the biggest banks, to reflect the fact that these companies could still end up being bailed out in the next crisis.

Under a proposal from senators David Vitter, a Louisiana Republican, and Sherrod Brown, an Ohio Democrat, banks with more than $400 billion in total assets would face an additional capital surcharge. The bill would also prevent banks' riskier affiliates from accessing government support such as deposit insurance.

JPMorgan's Abouhossein said the risk of these types of rules being imposed by lawmakers and regulators around the world makes it difficult to buy shares of the biggest investment banks.

*(Economic Times)*