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**Report on**  
**Banking Financial Management and Financial Markets**

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## **Introduction**

A significant shift in financial institutions' handling of money and markets was brought about by the financial crisis of the year 2008. The Dodd-Frank Wall Street Reform, the Volcker Rule and the Emergency Economic Stabilization Act are only a few of the regulations, laws and contracts examined in this article for their effects. The Basel Committee on Banking Supervision, Basel III Accord and ISDA Joint Agreement Amendment 2012 are among the reviewed global developments. The evaluation analyzes how these reforms have contributed to stabilizing the financial system, what it means for banking institutions and what problems and limitations they present. The essay additionally glances into the manner in which JP Morgan Chase has transformed its business model, changes in its financial performance and alternatives and problems that have arisen as a result of these revolutionary modifications.

## **Laws, Regulations and Contracts enacted by US Authorities**

### **Dodd-Frank Wall Street Reform and Consumer Protection Act**



**Figure 1:** Dodd-Frank Act

**Source:** Hayes, (2023)

Owing to the financial crisis of the year 2008, the United States administration passed significant laws, rules and contracts aimed at restructuring the financial services industry. The Dodd-Frank Wall Street Regulation and Consumer Protection Act was enacted in 2010 to maintain financial stability, boost transparency and protect consumers from unethical financial conduct (Ahmed and Ibrahim, 2018).

The FSOC, an alliance of officials from the government and policymakers entrusted with detecting and handling systemic vulnerabilities in the financial system, was constituted under the Act. Major banking organizations are subject to more stringent scrutiny from regulators when they are designated as systemically significant, which happens to be a component, the Financial Services Oversight Committee (FSOC) has the authority to execute. To reduce the reckless risk-taking that generated the financial crisis, this law limits the trading carried out by banks. It limits the

investment speculation that banks can participate in for their gain (Wilmarth, 2023). Having a focus on safeguarding individuals in transactions involving money, the Act constituted the Consumer Financial Protection Bureau (CFPB) as a separate entity. The (CFPB) monitors and regulates financial products and services to ensure they remain transparent and trustworthy (Langenbucher and Corcoran, 2022). The securities derivatives market, which significantly contributed to the economic downturn, was then subject to more transparency and scrutiny according to Dodd-Frank's new regulations. Standardized derivatives were to be traded on exchanges or exchange execution facilities, cleared through central clearinghouses, and settled. Higher capital and liquidity requirements were among the more rigid regulatory measures the Act set for financial institutions.

Additionally, it gave authorities the authority to take corrective action if institutions endanger the financial system. The primary objectives of Dodd-Frank were to eliminate conflicts of interest and increase the reliability of institution credit ratings. It set laws for credit rating agencies to reduce potential biases and assure more accurate evaluations.

## **Volcker Rule**

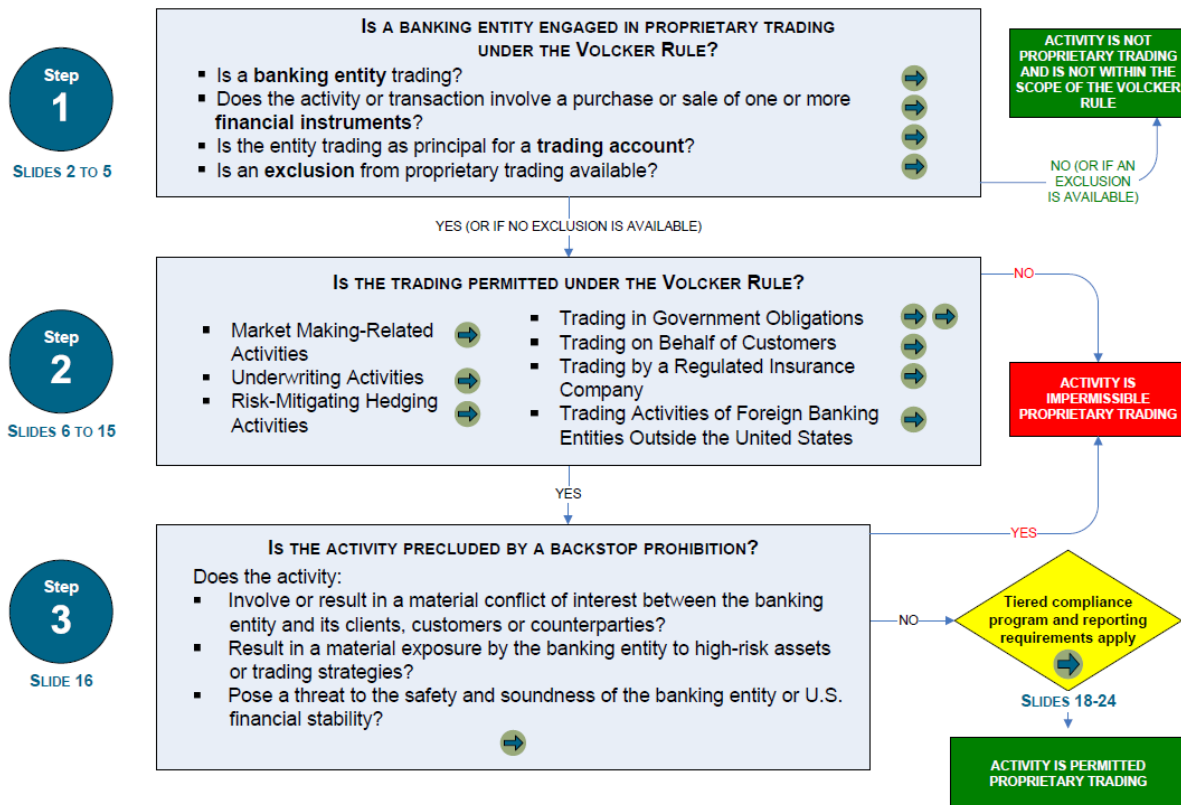


**Figure 2: Volcker Rule Overview**

**Source:** Nazareth, (2014)

In order to stabilize the financial system and minimize further crises, important laws, regulations and contracts were introduced due to the financial crisis 2008. The legislation known as Do Wall Street Reform and Consumer Protection Act's primary clause, the Volcker Rule, regulates exclusive trading and imposes prohibitions on banks' extremely dangerous procedures (Sutton, 2019). The regulations, which were entitled after previous Federal Reserve Chairman Paul Volcker, attempt to prevent possible future crises and safeguard the security of the financial system. Following the Volcker Rule, banks are prohibited from carrying out proprietary trading, which involves purchasing and selling financial products, such as stocks and derivatives, for the sake of oneself instead of one's customers. The following was considered an

alternative to the excessive risk-taking by the banking sector that caused the global economic downturn 2008. The regulation is intended to restrict banks from putting customer money at risk and to reduce the possible conflicts of interest brought on by exclusive trading (Haselmann, Leuz and Schreiber, 2021). Banks' holding of hedge and private equity funds is also subject to restrictions under the Volcker Rule. It tries to stop banks from making risky investments in these funds that can result in conflicts of interest and systemic potential dangers. A Volcker Rule regulatory initiative attempts to safeguard consumers from financial firms' irresponsible risk-taking and advance financial stability. Proprietary trading is prohibited, the ownership of hedge funds and private equity funds is restricted, banks must set up strong compliance systems, and their trading and investment activities must be reported to regulatory authorities (Freddo, Nofal and Vargas, 2022). The rule has damaged Large financial institutions, forcing them to rethink their willingness to take risk strategies and distinguish between customer-related and proprietary trading. Additionally, the law has enhanced transparency in the financial sector because banks are now driven to give extensive measurements and reports on their trading activity. This has allowed the legislation to limit banks' capacity to manage risk and reduce market liquidity efficiently.

### **Emergency Economic Stabilization Act**

With the goal to deal with the global economic downturn prompted by the real estate market crash, the Emergency Economic Stabilization Act (EESA) was introduced in 2008. It was meant to boost financial market confidence, stabilize the banking industry and prevent negative outcomes (Gębski, 2021). The Troubled Assets Relief Program (TARP), one of the main components of the EESA, allowed the US Department of the Treasury to buy or guarantee damaged assets like securities backed by mortgages from financial institutions (Cachanosky *et al.*, 2021). As a

result, the magnitude of toxic assets was reduced, promoting liquidity and enhancing the general well-being of financial institutions. The Emergency Economic Stabilization Act of 2008 (EESA), which provided the Department of Treasury the power to channel capital into financial companies through preferred securities, permits and other monetary instruments, allowed the government to address the economic downturn in the most efficient way possible. The Office of Economic Stability was established under the Act to regulate the management of TARP funds and their disbursement, focusing on accountability, transparency and supervision (Fabbrini, 2022). Frequent assessments and revisions were essential to inform the public and Congress about the program's development and effects.

The Act was essential in safeguarding the financial system, decreasing risks and setting the framework for other legislative and regulatory modifications designed to improve financial stability and prevent future crises, despite resistance and disagreement. The Emergency Economic Stabilization Act (EESA), passed in reaction to the economic crisis of 2008, aims to strengthen the financial markets while encouraging spending by enhancing investors' confidence. It also constructed the way for an even more comprehensive restructuring of the US financial regulatory system. In order to solve the real estate market crisis and reestablish liquidity in the finance sectors, the EESA gave the government the authority to offer assurances for specific kinds of financial transactions. In order to bring equilibrium to the housing market and reduce the social and economic effects of significant dwelling bankruptcies, the Act gave the Treasury Department the responsibility to create programs that would help struggling property owners avoid bankruptcy.

## Laws, Regulations and Contracts Enacted by Global Players

### Basel Committee on Banking Supervision

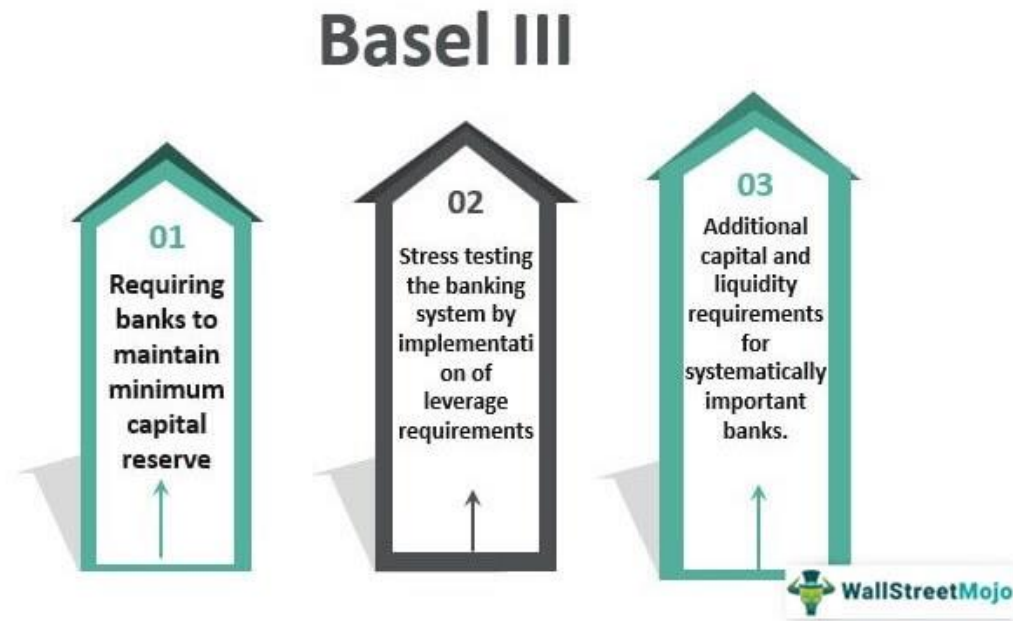


**Figure 3:** Basel III Accord

**Source:** Wallstreet Mojo (2023)

#### ***Basel III Accord***

Basel III accord is a recognized set of international banking regulations developed and implemented by the Committee on Banking Supervision in response to the 2008 global financial crisis. The advance of the 2008 financial meltdown has impacted the economies across the world due to sheer connectedness and globalization. Hence, to prevent such incidents from happening again, the Basel III accord was established to enhance the stability and resilience of the global banking system across the world by imposing stricter capital requirements, promoting liquidity buffers, and imposing risk management practices (BIS, 2022). In light of this, Basel

III has introduced a higher minimum capital ratio, which includes Common Equity Tier 1 (CET 1) capital. This ensures banks have sufficient buffers, enabling them to absorb the financial shock during the financial or economic downturn. Moreover, liquidity requirements like the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) were introduced, improving a bank's ability to handle short-term and long-term funding stresses.

### ***Basel III Liquidity Coverage Ratio***

The liquidity coverage ratio (LCR) is recognized as a key component of the Basel III framework, which was introduced to address the liquidity risk in the banking sector. As per the provisions of this mandate, the banking institutions are mandated to hold a minimum amount of High-Quality Liquid Assets (HQLA) to cover potential net cash outflows during a 30-day stress scenario. At the same time, the LCR was brought with a vision of enhancing the bank's liquidity risk management and also ensuring that the bank is capable enough to withstand short-term funding disruptions (BIS, 2022). On the flip side of the argument, LCR's standardized approach fails to account for the individual banks' unique liquidity profiles and their specific business models. Hence, it may result in a suboptimal allocation of resources, which hampers a bank's ability to support the economic growth requirement of a specific region.

Additionally, the requirement to hold a significant amount of HQLA can be costly for a bank, making the banking institutions divert their funds from productive lending activities. Hence, it may reduce credit availability to households and businesses, especially during normal economic conditions. The Basel III liquidity coverage ratio (LCR) can be used to calculate the ratio of a bank's HQLA in comparison to its net cash outflows over 30 days of stress. The formula can be expressed in percentage,  $LCR = \frac{HQLA}{Total\ Net\ Cash\ Outflow}$ .

### ***Basel III Net Stable Funding Ratio***

Basel III Net Stable Funding Ratio is another fundamental component critical to the framework and structure of Basel III, which aims to address longer-term liquidity risk in the banking sector. This specific provision is designed in order to ensure that the banking institutions maintain stable funding structures that are capable of supporting them during an event of normal and stressful conditions. As per the provisions and directives under the Basel III NSFR, all banking institutions must maintain a certain level of stable funding resources, such as long-term deposits and capital relative to their long-term assets and commitments. The NSFR can be calculated as the Available Stable Funding (ASF) ratio to Required Stable Funding (RSF), also expressed in percentage terms. Formula is  $NSFR = ASF/RSF$  (BIS, 2022). As per the formula, ASF represents the sheer amount of stable funding sources available to a bank to support its assets and overall lending activities over one year. Including long-term liabilities, capital and stable retail deposits, and other stable funding sources is essential. On the other hand, RSF represents the amount of stable funding a bank requires to support its asset and activities over a year. Moreover, it may include various assets and commitments, each assigned with a specific "required stable funding factor" based on liquidity characteristics. Hence, it can be stated that the higher liquidity risk of an asset commitment would result in higher RSF requirements.

### ***Basel III Leverage Ratio***

Basel III leverage ratio is the regulatory measure enacted after the 2008 financial catastrophe incident, intending to limit the excess leverage and improve the overall stability of the banking system. It involves calculating a bank's capital adequacy by comparing its Tier 1 capital to its total measure of exposure. This exposure includes

both balance sheet and off-balance sheet exposures. The leverage ratio can supplement the risk-based capital requirement. The Basel III leverage ratio formula involves  $\text{Basel III Leverage Ratio} = \text{Tier 1 Capital} / \text{Total Exposures Measure}$ . The Tier 1 capital essentially represents a bank's core capital, which includes common equity, Tier 1 capital and additional Tier 1 capital.

Moreover, the Tier 1 capital of a bank can be further narrowed down into common equity, disclosed reserves and retained earnings (BIS, 2022). Whereas on the other hand, the measure of the total exposure includes both on-balance sheet exposures and off-balance sheet exposures. The elements like loans and securities fall under the category of balance sheet exposures, whereas derivatives and contingent liabilities fall under off-balance sheet exposures. Lastly, the total exposure can be attained by drawing a sum of all exposures, without risk-weighting adjustments. The minimum leverage ratio requirement was set at 3%, meaning the banks must maintain a Tier 1 Capital of at least 3% of their total exposure.

## International SWAP and Derivatives Association (ISDA)

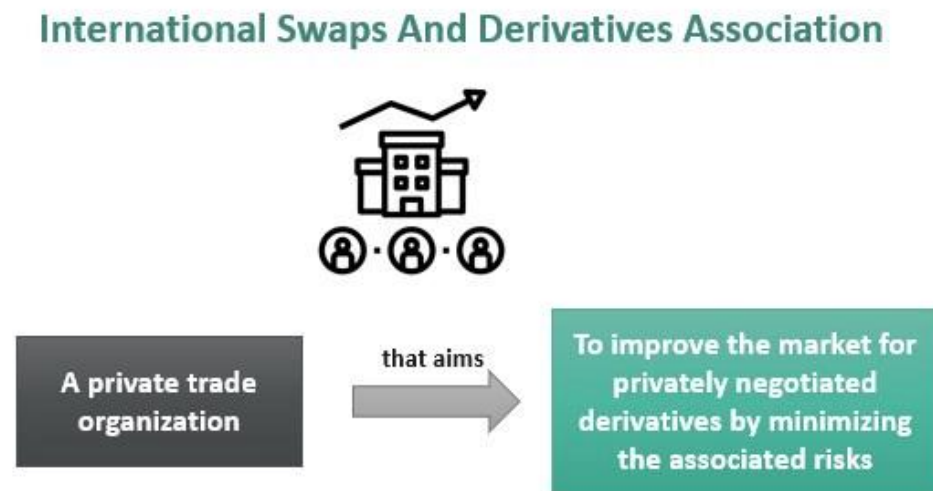


**Figure 4:** ISDA Frame

**Source:** Wall Street Mojo (2023)

### ***ISDA Master Agreement Revision 2012***

The ISDA Master Agreement revision of 2012 of the International Swaps and Derivatives Association's (ISDA) master agreement is considered a very standard contract used for the trading of swaps and other derivatives. This revision was published in 2012 and included several new provisions and mandates aimed at reducing systematic risk.

The following are some of the key changes which are mentioned in the ISDA Master Agreement Revision of 2012, that includes:

- **New Provisions on Collateralization:** This revision includes a new provision on collateralization designed to reduce the risk factor and incidence of counter-party default.

- **The new provision on close-out netting:** This revision includes a new provision focusing on close-out netting. This provision was specifically designed to ensure that the surviving party can eventually net out its obligations to the defaulting party in the event of default.
- **The new provision on termination events:** These renewed reforms brought in some stringent measures to deal with the termination of contracts. This provision, in particular, basically dictates when a party can terminate its contract.
- **New Provisions on Disputes Resolution:** This provision was designed to resolve all the critical disruptions between parties related to finance effectively.

Hence, the ISDA Master Revision of 2012 is considered a significant step forward in the right direction, which is aimed to make the global financial system more stable and resilient. Moreover, these reforms would also effectively reduce the burden of systematic risk and provide an easier platform for resolving disputes.

### ***ISDA Definitions for Standardized derivative contracts***

The ISDA definition for standardized derivatives contracts is central to the present topic. It has instigated financial reforms and their overall impact on the financial system. In the aftermath of the 2008 financial crisis, there was certainly a growing recognition and importance of enhancing transparency in the present financial framework across the world (Lo, 2009). Risk management in the derivatives market, however, a strong emphasis was put on improving the regulatory framework and overseeing derivatives trading. The standardized definition offered by ISDA played a significant role in meeting this objective. In light of this, financial institutions and

marketplace participants must increasingly conform to stringent regulatory requirements.

Moreover, having a standardized definition helps them to demonstrate compliance with this set of regulatory mandates. This also includes regulatory reporting from time to time, which is introduced to safeguard all the stakeholders from the associated risk exposures. This would further enhance and ensure that the derivatives transactions are better understood and managed. Furthermore, these definitions promote comprehensive market liquidity and encourage greater participation from many players in the financial market. In conclusion, the IDA's standard definitions for derivative contracts have become a very important part of the financial system across the major world economies and play a critical role in contributing to risk management and regulatory compliance. This gives much-needed stability to the derivatives market and blistering stability in the present financial system.

### ***ISDA Protocol for Credit Event Management***

The ISDA protocol for credit management is considered a stabilized framework developed by the international SWAPS and Derivatives Associations to facilitate the very coordination and management of the credit events pertaining to the credit derivatives market (Carruthers, 2013). Moreover, it enables the market participants to efficiently gauge the credit events from bankruptcies, defaults and restructuring. The protocol implemented further streamlines how these credit derivatives contracts respond or behave to the credit events. Hence, this reduces the risk of disputes and ensures consistent treatment. The provision under the ISDA protocol now allows market participants to update their existing credit derivatives contracts, which boosts transparency and efficiency in credit event management.

## Critical Review of the Reform

### Stabilizing the Financial System

The global financial crisis of 2007 to 2009 was the most tragic one that affected the US economy and caused social damage. The US government has stabilized the financial system by initiating many policy interventions, including multiple government agencies and economic sectors (Smith, 2023). While the initial interventions followed traditional system and authority, later government actions adopted more unconventional strategies, including significant action taken by the Federal Reserve, the Treasury, the Federal Deposit Insurance Corporation (FDIC) and other government entities to stabilize the financial system and the economy during the years 2007 to 2010.

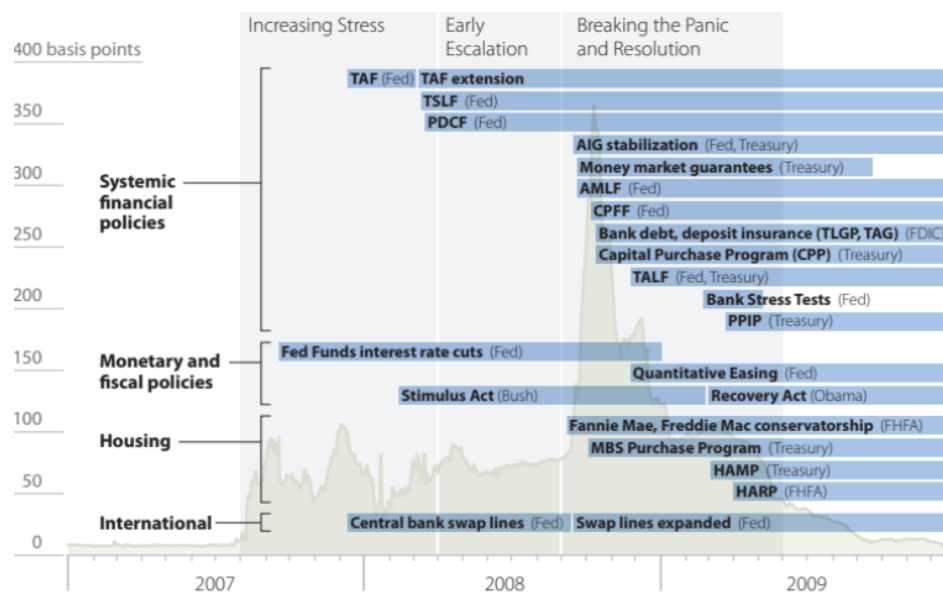


**Figure 5:** The nature of the responses changed as the crisis evolved over time

**Source:** YPFS (2019)

The above figure showcases the nature of action taken by the government and authority as the crisis evolved. However, the response was significant, forceful and comprehensive as the crisis intensified and Congress gained new emergency authority.

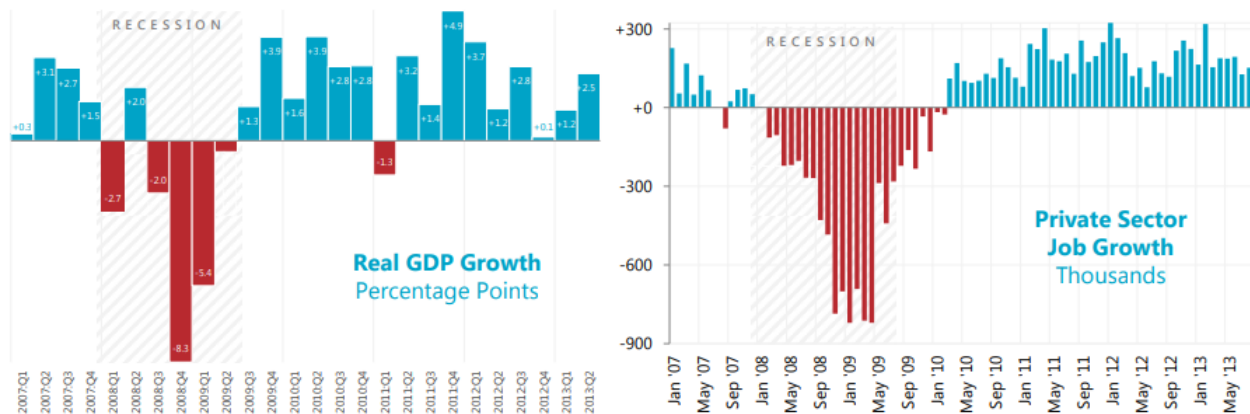


**Figure 6:** Impact of Financial Meltdown

**Source:** US Department of the Treasury, (2023)

The above figure showcases the US economy before, during and after the financial crisis, which triggered the significant recession since the Great Depression, which has destroyed 9 million jobs and economic instability by \$100 of dollars. In contrast, there is now a general agreement that the action taken by the Federal Reserve System is to protect the US financial system and to stabilize economic growth to overcome the global economic crisis. Dodd-Frank Wall Street Reform and Consumer Protection Act was established in 2010 to stabilize the financial system. The Council is charged by law with identifying risks to the financial system of the US through market strategy and measures taken against emerging threats to the US financial system (YPFS 2019). Congress adopted the Dodd-Frank Wall Street Reform and Consumer Protection Act which instituted banking regulation to overcome the financial crisis and charged with regulating, among other things, subprime mortgage

loans and other forms of consumer credit. After 2017, many provisions of the Dodd-Frank Act were effectively neutered by a Republican-controlled Congress. Volcker Rule was selected by US President Barack Obama in 2008 in order to chair his Economy Recovery Advisory Board which was established to overcome the global financial crisis (Vaidya, 2023). The Economy Advisory Board aimed to advise the president on a strategy for stabilizing financial markets. Emergency Economic Stabilization Act authorized the treasury secretary to establish a TARP (Troubled Asset Relief Program)

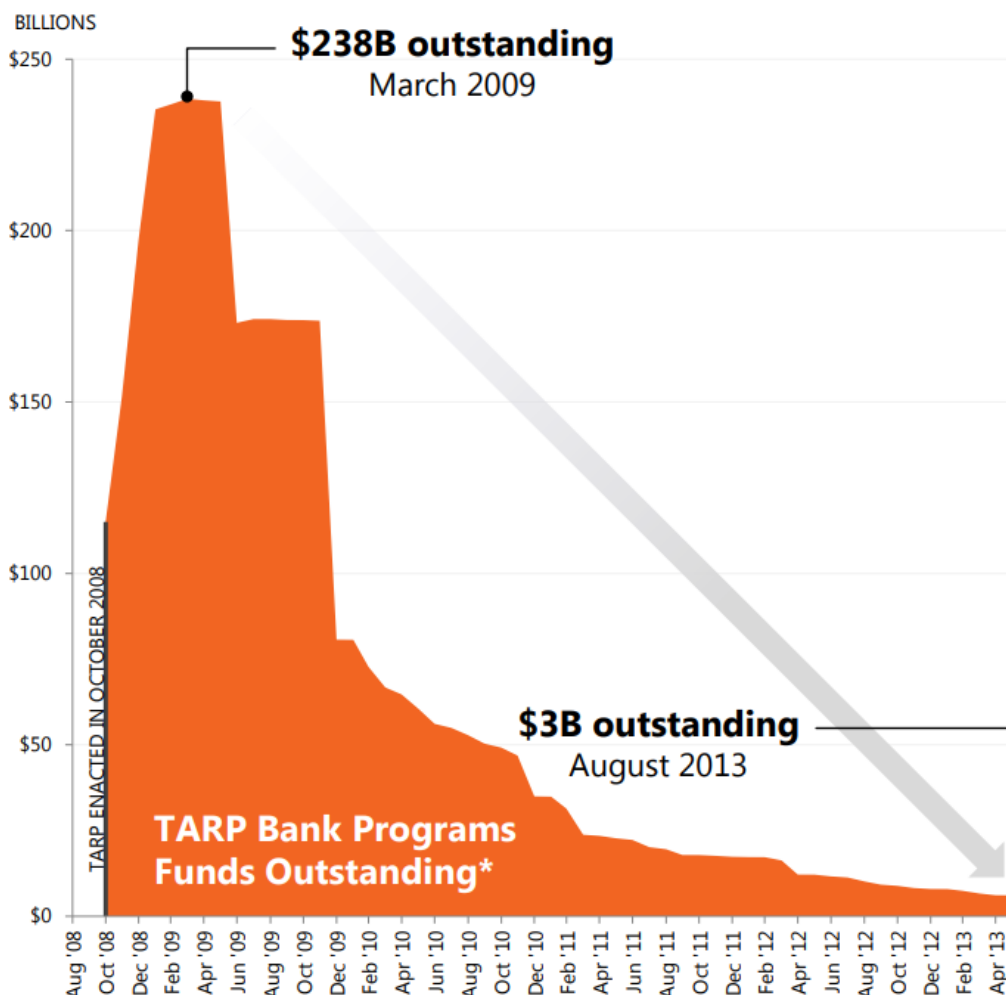


**Figure 7:** TARP bank investment program

**Source:** US Department of the Treasury, (2023)

The above figure showcases the TARP bank investment program that helps to stabilize the financial system by providing capital to more than 700 banks across the US in order to promote the US economy with credit and investment. The Dodd-Frank Act, Emergency Economic Stabilization Act and Volcker Rule helped the US economy to stabilize the financial crisis on different fronts by supporting many facets of the economy, such as small businesses, Autos, financial markets, consumers, retirement, and housing to prevent further declines and restart growth.

### **Impact on Banking Institutions**

The Dodd-Frank Act has enabled the Securities and Exchange Commission to regulate derivative trading among two parties to provide agreements on financial assets. These contracts can involve the exchange of bonds, commodities, currencies, interest rates or stocks. In 2018, the US president signed a statute that significantly changed the Dodd-Frank Act, including all Banking institutions (Encyclopædia Britannica, 2023). This has led to fewer banks signing to Dodd-Frank Regulation as those banking institutions have led to annual stress and financial crisis.

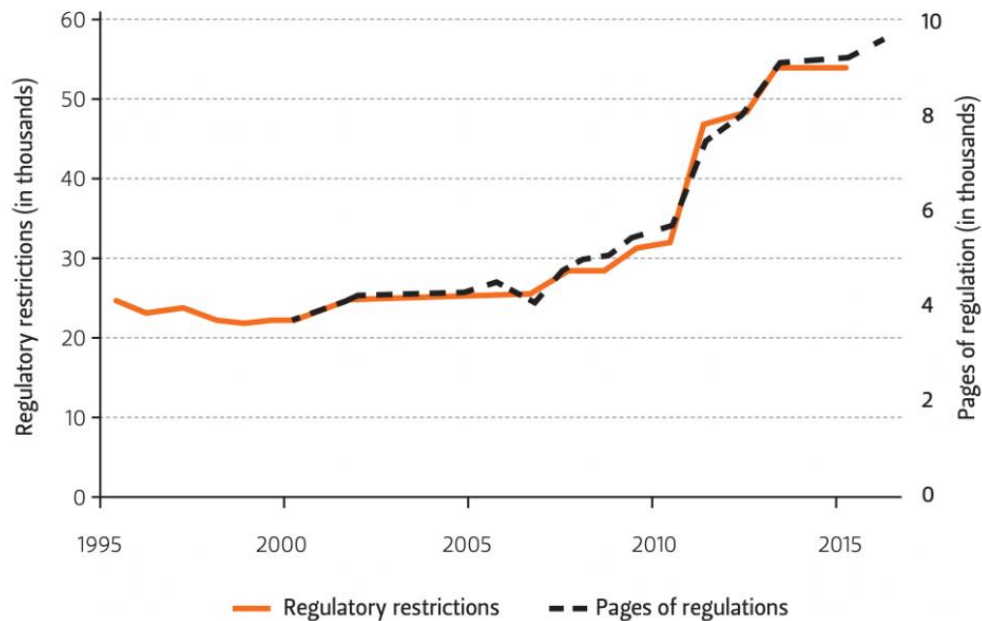


**Figure 8:** Measures of regulation in CFR Title 12 on banking institutions 1995 - 2017

**Source:** Hogan (2019)

The above figure showcases the measures of the Dodd-Frank Act in the Code of Federal Regulation Title 12 on banking institutions from 1995 to 2017. This indicates that the Act has increased banking regulation in terms of regulatory restriction on banking institutions from 28,875 in 2009 to 53,974 by 2016. The number of pages in CFR Title 12 rose from 5065 to 9,601 in 2017 (Hogan, 2019). This reflects that the Dodd-Frank Act has led to double the number of regulations applied to US banking institutions. In 2020, the Federal Deposit Insurance Corporation (FDIC) loosened its restriction on Volcker Rule as bank capital requirements were reduced. While the intent of this law, it has been the most challenging financial crisis rule for banking institutions to implement. The Volcker Rule has stopped depository banks from investing with customer deposits (Smith, 2023). It has led to prohibiting banks from making investments in private equity

funds. This rule has various impacts on banking institutions, leading to reduced risk management efficiency and forcing banks to operate in different ways within a protocol. Under this rule, banking institutions are required to provide greater transparency into trading activities and capital. The first TARP dollars were disbursed, stabilizing the financial market and establishing the foundation for economic recovery at a lower cost (Nolen, 2023). In 2011, total repayment and income on TARP investments accounted for \$308 billion, which indicates 75% of the \$412 billion in total disbursement (National Archives 2023). The deficit impact of TARP on market data was estimated at \$53 billion, which was increased by \$5 billion in 2012 (BIS 2022). The Basel Committee has a significant impact on banking institutions which involves banking lending and the cost of capital. Banks can meet higher capital requirements by lowering regulatory capital and leverage exposures. The effects of Basel III reforms led to banking lending, which is likely stronger with lower capital and liquidity ratios (BIS 2022).

### Challenges and Limitations on Banks

| Challenge                                                                                            | Limitations                                                                                     | Regulatory Compliance                                                                                                      | Data and Technology                                                                                       |
|------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| <i>Compliance Costs</i>                                                                              | <i>One-Size-Fits-All Approach</i>                                                               | <i>Regulatory Reporting Burden</i>                                                                                         | <i>Data Quality and Integration</i>                                                                       |
| - Banks may face significant costs in complying with complex regulations and reporting requirements. | - Reforms may need to consider financial institutions' diverse nature and unique risk profiles. | - Banks may need help to meet complex reporting requirements imposed by regulators, leading to increased compliance costs. | - Adequate data and technology capabilities are essential to ensure smooth implementation and compliance. |

|                                                                                                                        |                                                                                                                            |                                                                                                                        |                                                                                                                |
|------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| <i>Impact on Lending</i>                                                                                               | <i>Regulatory Arbitrage</i>                                                                                                | <i>Regulatory Fragmentation</i>                                                                                        | <i>Cybersecurity and Data Privacy</i>                                                                          |
| - Stricter capital and liquidity requirements may reduce banks' capacity to lend to consumers and businesses.          | - Some institutions may seek less regulated jurisdictions to evade certain reforms, leading to regulatory arbitrage risks. | - Different jurisdictions may adopt varying approaches to regulations, creating complexities for banks.                | - Ensuring data security and complying with data protection regulations are significant challenges.            |
| <i>Pro-Cyclicality</i>                                                                                                 | <i>Unintended Consequences</i>                                                                                             | <i>Resource Constraints</i>                                                                                            | <i>Technology Risk and System Resilience</i>                                                                   |
| - Reforms might amplify economic cycles by reducing lending during economic downturns.                                 | - Certain reforms may lead to unintended consequences, such as lending constraints or risk profile shifts.                 | - Implementing complex reforms may strain banks' resources, requiring substantial investments in technology and staff. | - Banks must address the risks associated with technological advancements and ensure system resilience.        |
| <i>Risk Weighting</i>                                                                                                  | <i>Compliance Complexity</i>                                                                                               | <i>Changes in Risk Profile</i>                                                                                         | <i>Impact on Market Liquidity</i>                                                                              |
| - Risk-weighting methods may only partially capture all risks, potentially leading to misaligned capital requirements. | - The complex nature of reforms can lead to challenges in interpretation and implementation.                               | - Reforms may lead to changes in banks' risk profiles, requiring corresponding adjustments to their capital models.    | - Reforms may affect the liquidity of specific assets or markets, potentially causing market liquidity issues. |
| <i>Interconnectedness</i>                                                                                              | <i>Fragmented Regulation</i>                                                                                               | <i>International Standards</i>                                                                                         | <i>Long-Term Impact and Unintended Consequences</i>                                                            |
| - Addressing systemic risks arising from                                                                               | - Divergent regulatory approaches among                                                                                    | - Ensuring consistent implementation of global standards across                                                        | - Reforms' long-term impact and potential unintended consequences                                              |

|                                                              |                                                            |                                                                          |                                                |
|--------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------|
| interconnected institutions may require global coordination. | jurisdictions can lead to regulatory gaps and consistency. | jurisdictions may be challenging due to differing regulatory frameworks. | should be continuously monitored and assessed. |
|--------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------|

## Impact of Post-2008 Financial Crisis Reforms on HSBC



**Figure 9:** HSBC Logo

**Source:** Company Website (2023)

### Business Model Analysis

One of London's leading banks, HSBC, recently dramatically decreased its UK share price, which has worried the financial markets. The share price fell to a worrisome 304p on Friday, falling below the closing low set during the notorious financial crisis in March 2009 (*HSBC managed portfolios - BSX*, 2019). It is further mentioned in the source that now that the stock has plummeted by an alarming 49% for the year, HSBC's London closing price is at its lowest level since 1998. The biggest European bank, HSBC, has had a difficult year, battling various issues that have put tremendous strain on its business operations (*HSBC managed portfolios - BSX*, 2019). Notably, the bank's operations in the area have been hampered by the protracted instability in its primary market, Hong Kong. The difficulties faced have

been made more challenging by the unpredictable environment caused by HSBC's political and social turmoil. In addition to its difficulties in Hong Kong, the bank is also facing global difficulties due to the pandemic's persistent economic effects. The organization has faced major challenges due to low-interest rates and rising loan losses, which has made an already difficult situation much more difficult (*HSBC managed portfolios - BSX*, 2019). It is mentioned in Zouaoui (2019) that the sinking share price of HSBC reflects a larger pattern of falling London-listed banking shares and is not an isolated occurrence. The authors further mentioned that major domestically focused lenders, including Barclays Plc, Lloyds Banking Group Plc, and NatWest Group Plc, are impacted by the FTSE 350 Banks index's lowest intraday level in nearly 28 years. These institutions are coping with the pandemic's consequences and the looming threat of a possible Brexit without a deal. Investors' worries are growing due to the ambiguity surrounding the Brexit discussions and the potential damage to trade and economic links. It is mentioned by Zouaoui (2019) a once-in-a-lifetime global recession that has thrown markets into uncertainty, and volatility characterizes the current economic landscape. The combined effect of these elements has induced a state of intense anxiety among investors, which has caused the price of banking shares to decrease on the London market. Given the ongoing difficulties faced by HSBC and its competitors for the past year, investors are anxiously looking for signals of stability and resilience within the banking sector. In order to traverse these unfamiliar seas, the road to recovery may be long and uncertain, requiring strategic adaptations, strict risk management, and a careful attitude (Mucci *et al.* 2019). Market players anxiously anticipate signs of optimism and a potential turnaround in the storm. The worldwide pandemic, low-interest rates, and geopolitical uncertainty continue to present banks like HSBC with various complex problems that make the future uncertain for the time being (*HSBC-managed portfolios - BSX*, 2019).

## **Impact on Financial Performance**

The financial crisis of 2008 has a significant effect on the financial performance of HSBC, just like other banks and financial institutions worldwide. The crisis exposed vulnerabilities in the global financial system, leading to economic downturns and severe market turmoil. In a sluggish European banks index, HSBC's stock fell the most, losing 3.4 per cent to 632 pence as of 12:15 GMT as a consequence of the financial crisis of 2008. In comparison to their competitors this year, they continually underperformed, reaching 617p, their lowest level since November 2012 (*HSBC Holdings plc 2008 Annual Report and Accounts* 2008). It is also mentioned in the source that this underperformance is ascribed to HSBC's heavy exposure to markets in South America, Asia, and the Middle East, all of which have been struggling recently and have harmed the bank's performance as a whole. With a dramatic decline of 62 per cent (amounting to US\$14,905 million) from the year before 2007, HSBC declared a profit before tax of US\$9,307 million in 2008. However, the net operating income before loan impairment costs and other adjustments for credit risk only slightly increased by 3% from 2007 to US\$81,682 million, or US\$2,689 million (*HSBC Holdings plc 2008 Annual Report and Accounts*, 2008). The bank's cost efficiency ratio\* increased to 47.2% in 2008 from 49.4% in 2007, demonstrating improved expense control. In 2008, HSBC had difficulties with loan impairment charges and other credit risk provisions totalling US\$24,937 million. Compared to the year before, 2007, this amount was US\$7,695 million greater, suggesting provisions for probable bad debts and credit risks during the financial crisis of 2008 (*HSBC Holdings plc 2008 Annual Report and Accounts*, 2008).

## **HSBC strategy intact**

Recent strategic moves towards fast-growing economies have been validated by the current crisis, which hastens the shift of the global economic centre from the West to the East. We have been able to keep making loans during these difficult times thanks to its strong balance sheet and enough cash. HSBC admits that despite the difficulties the crisis presented, the bank was not exempt from its repercussions. Nevertheless, we take satisfaction in having built the company on solid ground, which has allowed us to show the fortitude of HSBC in surviving the storm. Its tried-and-true approach is still in place, and we are eager to keep growing of company by concentrating on markets that are expanding more quickly than others throughout the world, especially in places where global connectivity is significant. The strong financial situation of HSBC supports this strategy. The recent strategic move of HSBC towards fast-growing economies has been validated by the current crisis, which hastens the shift of the global economic center from the West to the East. Thanks to its strong balance sheet and enough cash, we have kept making loans during these difficult times.

## **Conclusion**

The banking and financial sectors experienced significant alterations due to the worldwide economic downturn that followed in 2008. The Dodd-Frank Act, Consumer Protection Act and Emergency Economic Stabilization Act were all passed in the United States. Basel III, which addresses liquidity, steady funding and leverage ratios, was established globally by the Basel Committee. The ISDA has revised the Master Agreement and default event management procedures. These reforms impacted banking institutions and had difficulties while trying to restore stability to the financial sector. The reforms impacted JP Morgan Chase's business

strategy, financial performance and brought opportunities and challenges. Overall, this report can be concluded that these comprehensive changes have altered the financial landscapes everywhere, trying to minimize the effects of crisis while promoting robustness.

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