**Center for Capital Markets Competitiveness**

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January 31, 2014

Mr. Robert de V. Frierson
Secretary
Board of Governors of the
Federal Reserve
20th Street and Constitution Avenue, NW
Washington, DC 20551

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the
Currency
250 E Street, SW
Washington, DC 20219

**Re: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards and Monitoring; Proposed Rule; Docket OCC 2013-0016, RIN 1557 AD 74, 12 CFR Part 50; Regulation WW, Docket No. R-1466, RIN 7100 AE-03, 12 CFR Part 249; RIN 3064-AE04, 12 CFR Part 329**

Dear Messrs. deV. Frierson, Feldman, and To Whom It May Concern:

The U.S. Chamber of Commerce ("the Chamber") is the world's largest business federation, representing the interests of more than three million businesses and organizations of every size, sector, and region. The Chamber formed the Center for Capital Markets Competitiveness ("the CCMC") to promote a modern and effective regulatory structure for the capital markets to fully function in a 21st century economy. The CCMC has commented[1] extensively on these issues in the past. We believe that appropriate leverage and capital requirements are necessary to avoid over-leveraging; however, leverage and capital standards that are too onerous can have serious, unintended negative consequences. Allowing suitable levels of risk-taking is a necessary element needed to fuel growth and innovation within the overall economy.

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[1] *See* also letter of June 14, 2011 from the Chamber to Federal Reserve Chairman Ben Bernanke on G-SIFI surcharges, letter of October 22, 2012 from the Chamber to the regulators commenting on the proposed Basel III regulations, letter of September 19, 2013 from the Chamber to the Bank of International Settlements commenting on *Revised Basel III leverage ratio framework and disclosure requirements,* and letter of September 23, 2013 from the Chamber to the regulators on *Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and their Subsidiary Insured Depository Institutions*.

The CCMC has serious concerns with the liquidity coverage ratio proposal. First, the CCMC is concerned that the liquidity coverage ratio proposal is premature because the Bank for International Settlements ("BIS") is currently reviewing ways to reduce the complexity and opaqueness of the Basel III capital agreements (Basel III").[2] The CCMC is also concerned that the liquidity coverage ratio proposal will preclude many fundamental and accepted business practices, thereby constraining the resources that businesses need to grow and create jobs. The impact of these constraints must be evaluated cumulatively with similar constraints arising from the leverage coverage ratio proposal. It does not appear, however, that the regulators are factoring in all of these impacts. For these and other reasons discussed below, the CCMC believes that the regulators are also using a faulty and incomplete economic analysis to assess the impacts of the liquidity coverage ratio proposal despite their acknowledgement that it is an economically significant rulemaking.

Accordingly, the CCMC requests that the regulators hold a joint roundtable to better inform their understanding of the broad impacts of the liquidity coverage ratio proposal on not only the financial institutions being regulated directly, but also the many businesses that rely on them. Obtaining such input will help the regulators make adjustments to strike the right balance between liquidity ratios, capital requirements, and efficient capital formation.

Our concerns are addressed in greater detail below:

## I. Discussion

The CCMC appreciates the opportunity to comment on ***Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards and monitoring*** ("liquidity coverage ratio proposal") proposed by the Office of the Comptroller of the Currency ("OCC"), Board of Governors of the Federal Reserve System ("Federal Reserve"), and the Federal Deposit Insurance Corporation ("FDIC") (also collectively referred to as "the regulators"). On October 24, 2013, the regulators issued the proposed liquidity coverage ratio rules. The proposed liquidity coverage ratio rules were published in the *Federal*

[2] *See* discussion paper on *The Regulatory Framework: Balancing Risk Sensitivity, Simplicity and Comparability* ("Basel III capital simplification paper"). The Chamber submitted a comment letter on the Basel III simplification paper on October 11, 2013.

*Register* on November 29, 2013 and the comment period is scheduled to close on January 31, 2014. Let us state at the outset that the CCMC supports strong capital requirements and liquidity ratios to insure the stability of financial institutions. Appropriate and balanced capital and liquidity requirements are necessary to avoid over-leveraging and allow suitable levels of risk-taking needed to fuel economic growth and job creation.

**a. Basel III Complexity and Simplification**

Recently, regulators from across the globe have joined investors and other commentators in raising concerns that the Basel III capital framework is too complex. Part of the concern is that the complexity may cause opaqueness, frustrating the goal of safety and soundness by hampering the ability of regulators and investors to understand the health of individual banks or to compare the soundness of different banks. As a result, the Basel Committee on Banking Supervision ("BCBS") released the Basel III capital simplification paper to achieve a better understanding of the complexity of capital requirements and determine how to simplify them to better achieve stability and transparency at financial institutions. Comments to the Basel III capital simplification paper are currently being reviewed by the BCBS.

The CCMC commented[3] on the Basel III capital simplification paper and also wrote to the regulators, as well as to the BCBS, requesting that the Basel III leverage ratio framework and the enhanced supplementary leverage ratio standards be placed on hold pending the completion of the Basel III capital simplification paper.

The CCMC made this request because Basel III is the foundation for the system of capital requirements, leverage ratios, and liquidity requirements that global regulators have been building upon since the 2008 financial crisis. The regulators have moved forward in building such a system here in the United States, and in fact, have aggressively shaped tougher requirements than the majority of other nations. While tough capital rules may be necessary, there must also be a balance to ensure that American businesses are not placed at a global disadvantage. If the drafters of Basel III are now trying to

[3] *See* letter of October 11, 2013 from the Chamber to BIS commenting on the Basel III capital simplification paper and Chamber letter of September 19, 2013 to BIS and September 23, 2013 on leverage ratios.

simplify it to reduce complexity, then the initiatives to implement Basel III, including in the U.S., should reflect that.

Accordingly, we would respectfully request that the regulators work with BIS on the Basel III simplification study and incorporate its recommendations where appropriate. This will help to simplify the composition of assets needed to satisfy the liquidity coverage ratio and provide greater clarity and understanding for market participants.

**b. Inconsistent Regulation Across Jurisdictions**

While Basel III attempts to create a uniform international system of capital and liquidity requirements and leverage coverage ratios, we note with significant concern the increasing number of differences arising in regulatory reforms across major jurisdictions. For example, the liquidity coverage ratio proposal by the regulators would increase the existing minimum leverage ratio requirement for certain large U.S. bank holding companies and their insured depository institutions, resulting in significant differences in the minimum capital requirements across product types. Such inconsistencies may introduce competitive disparities, operational and enforcement uncertainties and systemic inefficiencies, all of which could lead to greater systemic risks, adversely impact economic growth and impede cross-border capital flows needed for businesses to operate on a global basis.

The CCMC recognized the need for and called for comprehensive regulatory reform before the 2007-2008 financial crisis. Basel III can only be a homogenous standard if its interpretation, application and enforcement are the same across the board. An integrated regulatory framework, implemented consistently across jurisdictions, is necessary to provide uniform incentives and disincentives to mitigate potential systemic risks to the safety and soundness of the financial system. As a part of an international system of capital and liquidity rules, it seems as if the liquidity coverage ratio proposal goes well beyond what was envisioned in Basel III. We believe that there should be consistency in the rule development and application of liquidity coverage ratios for Basel III participants.

**c. Potential Harm to Economic Growth and Job Creation and Study of other Regulatory Initiatives**

The CCMC is concerned that the proposed liquidity coverage ratio proposal will create significant disincentives for financial institutions to offer certain products and restrain the amount and type of capital available to businesses.  These policy outcomes will harm capital formation and hamper the ability of businesses to grow and create jobs, while undermining the goal of the liquidity coverage ratio proposal to facilitate stable financial institutions.

We believe that the individual impacts of the liquidity coverage ratio proposal and the cumulative impact of other regulatory reform initiatives upon the financial system and the economy should be studied to understand the aggregate impact and consequences of these initiatives before any proposals are finalized and implemented.  This is necessary to understand the impacts of the liquidity coverage ratio proposal upon capital formation for Main Street businesses in order to avoid adverse unintended consequences.

For instance, the CCMC is concerned that the treatment of undrawn credit commitments to SPEs will hamper the ability of businesses to access securitized lines of credit that are a major source of funding.  As these credit facilities compose a large portion of debt financing for non-financial businesses this reduced access to such facilities will harm the ability of treasurers to meet short-term financing needs, as well as fuel the long-term growth of businesses.

Other concerns exist as well.  Non-financial companies use derivatives, not as a means of financial speculation, but rather as a form of mitigation to hedge risk and acquire materials at a stable price.  Accordingly, we believe that the calculation of collateral outflows relating to derivative transactions should take into account potential offsetting collateral inflows.  This will allow for a realistic reflection of transactions and their impact upon the stability of a financial institution.  Along the same lines, foreign exchange transactions that are considered derivatives under the liquidity coverage ratio proposal that offset or are part of the same swap arrangement should be treated as a single transaction with offsetting cash flows.

Reduced product offerings from financial institutions may impede businesses' ability to access capital and liquidity or to prudently mitigate risk. The unintended consequence of reduced credit availability and higher cost of capital will adversely impact *all* businesses, irrespective of size or sector. Higher financing costs may dramatically change businesses' ability to raise capital, ultimately slowing both economic growth and job creation. This is not taken into account in the cost-benefit analysis provided in the liquidity coverage ratio proposal.

The liquidity coverage ratio proposal is the latest in a series of initiatives that may hamper the ability of businesses to access the capital and liquidity needed to grow and operate. A comprehensive review of these initiatives illustrates:

- The recent leverage ratio proposal materially increases the minimum capital requirement by product relative to Basel III which may harm the ability of non-financial businesses to access markets to prudently mitigate risk or manage cash and liquidity;

- Capital surcharges upon Global Systemically Important Financial Institutions ("G-SIFIs") will force large internationally active banks to withdraw additional capital from productive capital formation streams;

- The complex regulatory regime imposed by the Volcker Rule is expected to impact the ability of non-financial businesses to enter the debt and equity markets by raising costs and creating barriers of entry to the capital markets. The issues with Trust Preferred Bonds and Collateralized Loan Obligations ("CLO's") are only the first set of problems to arise, and more are expected;
- If the Volcker Rule and other market reforms hamper capital formation, the next alternatives are commercial lines of credit; however, Basel III creates disincentives for banks to provide businesses with commercial lines of credit;

- Proposed Money Market Fund reform may harm the ability of non-financial businesses to access the short-term commercial paper markets and manage cash; and

- Other regulatory initiatives including derivatives regulation, which do not take into account non-financial end-user concerns, will impact the ability of non-financial companies to mitigate risk.

The combination of all of these initiatives could lead to an underperforming and less stable financial sector, create barriers to capital formation, and inhibit effective risk management for non-financial businesses and have unintended ramifications throughout the rest of the economy. The inability of businesses to engage in normal capital formation activities, efficient cash management, and effective risk allocation will raise costs and create inefficiencies adversely impacting economic growth and causing collateral harm to the financial sector.

In the CCMC's view, the statement in the liquidity coverage ratio proposal that business practices will not be altered is not a factually correct one.

**d. Imposition of Liquidity Coverage Ratio Rules on Non-Bank Companies that Own Banks**

The CCMC also has concerns regarding the scope of the liquidity coverage ratio proposal by sweeping in non-bank companies that own banks to help facilitate customer transactions. This business practice helps non-bank companies to be more efficient and to assist with customer financing, making the overall company stronger. An overbroad application of the proposed liquidity coverage ratio rules will harm these non-bank companies making financial practices less efficient and less able to assist customers with financing, thereby adversely impacting the stability of our capital markets. This will create a mismatch of regulation and apply banking regulations in a manner that will hamper the ability of such businesses to operate.

The regulators are proposing overly broad application of the proposed liquidity coverage ratio in several other respects as well. For example, with broker-dealers the liquidity coverage ratio proposal fails to consider other customer protection regimes in play among affiliated broker-dealers and covered banks, such as the Securities and Exchange Commission's ("SEC") Rule 15c3-3, ("the Customer Protection Rule"). This failure to consider the cumulative regulatory obligations of entities covered by the liquidity ration proposal will result in conflicting, overlapping, and unduly burdensome regulatory obligations. By not taking into account the Consumer Protection Rule, the liquidity coverage ratio proposal would require a holding company with bank and broker-dealer subsidiaries to duplicate the funds deposited into the Consumer Protection Rule account if a client's free cash is swept into the affiliated bank. The broker-dealer must deposit cash or securities (more restrictive test on these than the liquidity coverage ratio proposals High Quality Liquid Asset ("HQLA") test into a segregated account held for the benefit of clients. Should a client request the return of its free cash, the amount held in this account may be reduced and returned to the broker-dealer. However, under the liquidity coverage ratio proposal any cash deposited into the bank would also require HQLA to meet the appropriate run-off rate, duplicating the account subject to the Consumer Protection Rule.

No brokerage client has lost his cash in a failed broker-dealer because of the operation of the Customer Protection Rule, yet the regulators have ignored this regime and instead impose their own liquidity regime. While this is one example, the application of the liquidity coverage ratio proposal to non-bank businesses that happen to own a bank for financing and cash management purposes will create other anomalies, redundancies and inefficiencies.

**e. Enhanced Cost Benefit and Economic Analysis Needed Before Liquidity Coverage Ratio Rules can be Finalized**

**i. Compliance with Executive Orders 13563 and 13579 on Regulatory Reform**

The liquidity coverage ratio proposal must follow the requirements of the Administrative Procedures Act ("APA"). Additionally, the Federal Reserve, FDIC and OCC have overlapping, but not identical legal obligations and internal practices for economic analysis when promulgating a rule. All of the regulators are subject to the Regulatory Flexibility Act ("RFA") and the Paperwork Reduction Act ("PRA"). The RFA requires assessment of the economic effect of regulations on small business and consideration of less burdensome alternatives. The PRA requires assessment of the paperwork burden on small entities and ways to reduce or mitigate it.

All of the regulators must also comply with the Small Business Regulatory Enforcement Fairness Act ("SBREFA"). Among other things, the portion of SBREFA known as the Congressional Review Act states that rulemaking agencies must submit to GAO, and make available to each house of Congress, "a complete copy" of any cost-benefit analysis prepared for a final rule for which such an analysis is performed.[4]

Additionally, all of the regulators are subject to Riegle Community Development and Regulatory Improvement Act ('Riegle Act,' 12 U.S.C. §4802(a)). This law applies to all "Federal banking agencies" defined in Section 4801 of the Riegle Act (12 U.S.C. §1813) to include the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and (although not relevant to this rulemaking) the Office of Thrift Supervision. The Riegle Act mandates that "[i]n determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions, each Federal banking agency shall consider, consistent with the principles of safety and soundness and the public interest - (1) any administrative burdens that such regulations would place on depository institutions, including small depository institutions and customers of depository institutions; and (2) the benefits of such regulations."

While the next section of the letter will deal with the "economically significant" standard, it is also important to note some of the other economic analysis requires that the regulators observe, or at least claim to observe, when promulgating rules. For example, the OCC observes the Unfunded Mandates Reform Act (UMRA) economic analysis requirements in its rulemakings.[5] Although the Federal Reserve is an independent agency, it has avowed that it will seek to abide by Executive Order 13563. The Federal Reserve recently stated that it "continues to believe that [its] regulatory efforts should be designed to minimize regulatory burden consistent with the effective implementation of [its] statutory responsibilities."[6] As recently as October 24, 2011, the

[4] 5 U.S.C. 801(a)(1)(b)(i))
[5] *See* Final Volcker Rule, SEC, at 882, available at http://www.sec.gov/rules/final/2013/bhca-1.pdf.
[6] November 8, 2011, letter from Chairman Ben Bernanke to OIRA Administrator Cass Sunstein.

Federal Reserve wrote a letter to the Government Accountability Office acknowledging the need to engage in a cost-benefit analysis and asserting that the Federal Reserve's use of such an analysis, since 1979[7], has mirrored the provisions of regulatory reform as articulated in Executive Order 13563.[8]

Therefore, the standards and considerations of costs and benefits and economic impacts overlap, but also vary across the agencies involved in the liquidity coverage ratio proposals. Given this haphazard and uncoordinated analysis under existing practices, the CCMC recommends that the regulators establish a common baseline for cost-benefit and economic analysis by using the blueprint established by Executive Orders 13563 and 13579, in addition to other requirements they must follow.[9] Doing so would allow meaningful, cumulative analysis that would result in a more coherent final rule with fewer harmful, unintended consequences for the American economy.

Executive Order 13563 places upon agencies the requirement, when promulgating rules to:

1) Propose or adopt a regulation only upon a reasoned determination that its benefits justify its costs (recognizing that some benefits and costs are difficult to justify);

2) Tailor regulations to impose the least burden on society, consistent with obtaining regulatory objectives, taking into account, among other things, and to the extent practicable, the costs of cumulative regulations;

3) Select, in choosing among alternative regulatory approaches, those approaches that maximize net benefits (including potential economic, environmental, public health and safety and other advantages; distributive impacts; and equity);

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[7] Board of Governors of the Federal Reserve System, Statement of Policy Regarding Expanded Rulemaking procedures, 44 Fed. Reg. 3957 (1979)
[8] *See* letter from Scott Alvarez, General Counsel of the Federal Reserve, to Nicole Clowers, Director of Financial Markets and Community Investment of the General Accountability Office.
[9] Executive Order 13579 requests that independent agencies follow the requirements of Executive Order 13563.

4) To the extent feasible, specify performance objectives, rather than specifying the behavior or manner of compliance that regulated entities must adopt; and

5) Identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior, such as user fees or marketable permits, or providing information upon which choices can be made to the public.[10]

Additionally, Executive Order 13563 states that "[i]n applying these principles, each agency is directed to use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible."

Conducting the rulemaking and its economic analysis under this unifying set of principles will facilitate a better understanding of the rulemaking and its impact and give stakeholders a better opportunity to provide regulators with informed comments and information.

### ii. Failure to Provide an Appropriate Cost-benefit Analysis as Required Under the Unfunded Mandates Reform Act

As stated earlier, the OCC determines pursuant to UMRA if a rulemaking will cost state, local, or tribal governments or the ***private sector*** more than $100 million, using cost of living increases as permitted under UMRA. The threshold is now $141 million. The OCC estimates that the liquidity coverage ratio proposal will cost between $165 million and $246 million and is therefore an economically significant rulemaking. Therefore, the OCC should submit the rulemaking for an enhanced review and provide estimates of future compliance costs, impacts upon the economy—including data on productivity, jobs, and international competitiveness.[11]

To our knowledge this enhanced review under UMRA, has not been performed. Accordingly, the CCMC believes that an UMRA enhanced cost benefit analysis should be

[10] Executive Order 13563
[11] *See* 2 USC 1501, et. seq.

undertaken and released for public comment before the leverage coverage ratio proposal is finalized.

## II. Request for Roundtable

The CCMC requests that the regulators hold a roundtable composed of financial institutions and their customers to identify unintended consequences, as well as the costs and burdens of the liquidity coverage ratio proposal imposed on stakeholders. Such a roundtable will allow the regulators to have a better understanding of how the liquidity coverage ratio proposal would work and how it may need to be changed to avoid unintended, adverse consequences.

The Volcker Rule is a case in point as to how such a roundtable can be a constructive tool in rulemaking. With the Volcker Rule, the CCMC requested increased public outreach, extended comment periods, and a re-proposal as a means to allow all stakeholders to have a holistic dialogue with regulators to identify the unintended consequences of the Volcker Rule and correct them before the regulation was finalized. Regulators did not heed the requests, and the problems with trust preferred bonds and CLOs erupted after the rule was finalized. More problems are expected to arise both before and after the conclusion of the conformance period. The trust preferred bond and CLO issues could have been identified early in the rule drafting process through increased public outreach and dialogue.

The CCMC believes that similar problems may occur that could harm the capital formation and liquidity needs of Bank's customers. We also believe that the proposed rule is likely to create problems for non-financial businesses that could spill over and harm the stability of financial institutions. Accordingly, we believe that a roundtable could be an effective means to ensuring a balanced, well--informed regulation that promotes the stability of financial institutions while avoiding unintended, harmful impacts on the overall economy.

## III. Conclusion

The CCMC believes that: 1) the liquidity coverage ratio proposal is somewhat premature until the Basel III simplification effort is complete; 2) regulators need to achieve a better understanding of the impacts of the proposal on capital formation and the collateral effects on financial stability; and 3) the proposal should go through a more enhanced cost-benefit analysis subject to public comment since it is an economically significant rulemaking.  A roundtable will help the regulators better understand the means by which businesses raise capital and mitigate risk.  Preventing normal business transactions from occurring or making those transactions inefficient can have a harmful impact upon all manner and size of businesses, their financial institutions, the economy, and society as a whole.  As Zion's Bancorporation's experience with the Volcker Rule has demonstrated, one firm's response to a regulation can cost the economy well over one hundred millions of dollars.

We respectfully request that you take these concerns under consideration in the development of the liquidity coverage ratio proposal.  We are willing to discuss our concerns with you in greater detail.

Sincerely,

Tom Quaadman

**U.S. Chamber of Commerce**

June 14, 2011

The Honorable Ben Bernanke
Chairman
The Board of Governors of the
Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 205551

Dear Chairman Bernanke:

The U.S. Chamber of Commerce, the world's largest business federation represents the interest of more than three million businesses and organizations of every size, sector, and region. We would like to take this opportunity to thank you and the Federal Reserve System for your tireless efforts in seeing the American financial system through the crisis and its after-shocks. Your stewardship of the Federal Reserve System was vital to preventing the shut-down of the credit markets and placing the economy on the road to recovery.

Nevertheless, we write to you today to express our strong concerns over the possible imposition of capital surcharges upon Global Systemically Important Financial Institutions ("GSIFI's"). We believe that appropriate capital requirements are necessary to avoid over-leveraging and allowing suitable levels of risk-taking needed to fuel growth and innovation within the overall economy. However, these proposed capital surcharges come in addition to the Volcker Rule, other Dodd-Frank provisions including derivatives regulation, resolution authority and systemic risk regulation, as well as other capital requirements could disrupt that balance placing American financial institutions at a competitive disadvantage. Such a competitive disadvantage may raise the cost of capital for *all* businesses, create a drag on economic growth, and endanger the ability of the American economy to create the over 20 million jobs needed over the next 10 years to recover from the financial crisis and return the United States to prosperous growth.

At a minimum, a study should be undertaken, both domestically and internationally, to ascertain the potential impacts of a capital surcharge upon the financial system and economy as a whole before any proposals are implemented.

In November, 2008, the Chamber released principles for regulatory reform that included a section on capital and liquidity standards stating:

> [e]xtreme leverage is an issue that demands regulatory focus, given repercussions during periods of stress in our financial markets. Capital and liquidity requirements will need to be established for *all* significant financial institutions that can have an impact on the stability of our capital and financial markets. These requirements should encourage meaningful prudence taking into account the firm's risk profile, while permitting critically necessary innovation and thoughtful risk-taking.

Furthermore, in opposing the Volcker Rule ban on proprietary trading, during the debate of the Dodd-Frank Wall Street Reform and Consumer Protection Act ('the Dodd-Frank Act"), the Chamber stated that the use of adequate capital standards was a pro-growth tool to address concerns of inappropriate risk taking, rather than a unilateral prohibition of generally accepted business practices. The Dodd-Frank Act allowed for a series of other wide-ranging powers to address inappropriate levels of risk including periodic stress tests, ability to impose higher capital standards, etc.

Therefore, the Dodd-Frank Act places both higher capital standards ***and*** the Volcker Rule ban on proprietary trading upon American financial services firms.

The Dodd-Frank Act in some respects puts American financial institutions at a competitive disadvantage. All of the other major economies have rejected any imposition of the Volcker Rule. While the United States did not fully implement Basel II, American capital standards have tended, historically, to be tougher than the norm globally and the Dodd-Frank Act will allow financial regulators to make the capital standards tougher than anywhere else around the world.

In effect, we have created a system where our largest financial institutions, domestically, will not resemble what a full service financial firm will look like in other parts of the world. This is not a matter of a race for the bottom, but rather that domestic customers may not have the same access to forms of capital that other global actors may.

Therefore, American GSIFI's will face an array of regulatory tools and procedures to prevent inappropriate risk taking, that their global competitors may not, while not being able to engage in activities that other global firms may.

In such an atmosphere, the imposition of a GSIFI capital surcharge on American financial institutions may place them at a further economic disadvantage, create a drag on our financial services sector, and raise the costs of capital for businesses. These unintended consequences could have ramifications throughout the rest of the economy. An underperforming financial sector will make it more difficult for businesses to raise capital in an increasingly competitive global economy, adversely affecting economic growth and job creation. We believe that the impacts of a GSIFI's capital surcharge, upon the financial system and economy, should be studied before any proposals are implemented.

Thank you for the consideration of these views. We look forward to an on-going dialogue with you and your staff to help address these issues and others that involve the extension of credit used by businesses to expand and create jobs.

Sincerely,

David Hirschmann
President
Center for Capital Markets
Competitiveness
U.S. Chamber of Commerce

Dr. Martin Regalia
Senior Vice President and Chief Economist
Economic Policy
U.S. Chamber of Commerce

CENTER FOR CAPITAL MARKETS COMPETITIVENESS

DAVID T. HIRSCHMANN
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October 22, 2012

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve
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Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

**Re: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions and Prompt Corrective Action; Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; Advanced Approaches Risk-based Capital Rule. 12 CFR Parts 3,5,6,165, 167, Docket ID Nos.OCC 2012-0008, OCC 2012-0009, OCC 2012-0010, RIN 1557-AD46, 12 CFR Parts 208, 217 and 225, Regulations H, Q and Y, 12 CFR Parts 324 and 325, RIN 3064-AD95, RIN 3064-AD96, RIN 3064-AD97**

Dear Ms. Johnson, Mr. Feldman and To Whom It May Concern:

The U.S. Chamber of Commerce ("the Chamber"), the world's largest business federation represents the interest of more than three million businesses and organizations of every size, sector, and region. The Chamber believes that appropriate capital requirements are necessary to avoid over-leveraging; however, capital standards that are too arduous can have serious, unintended negative consequences. Allowing suitable levels of risk-taking is a necessary element needed to fuel growth and innovation within the overall economy.

While the Chamber appreciates the extension of time to consider this proposal, we believe the Office of the Comptroller of the Currency ("OCC"), Board of Governors of the Federal Reserve System ("Federal Reserve"), and Federal Deposit Insurance Corporation ("FDIC") (also collectively as "the regulators") in releasing the three notices of proposed rulemaking to implement the Basel III capital agreements ("Basel III NPRs") has failed to take into account critical aspects of how capital is used and, in some cases, has not paid sufficient attention to procedural detail.

Specifically, the Chamber's concerns are centered upon:

- **Failure to consider impacts on Main Street businesses and the economy;**
- **Enhanced cost-benefit and economic analysis needed before Basel III NPR's can be finalized;**
- **Resolution of conflicts with other legislative and regulatory initiatives;**
- **Impact of GSIFI surcharges placing U.S. firms at a competitive disadvantage;**
- **Uniform international application;**
- **Resolution of issues impacting Real Estate Investment Trusts that may depress the commercial real estate market; and**
- **Resolution of issues related to Trade Finance.**

Our comments and concerns are discussed in greater detail below.

## Discussion

In November 2008, the Chamber released principles for regulatory reform that included a section on capital and liquidity standards, which states:

> [e]xtreme leverage is an issue that demands regulatory focus, given repercussions during periods of stress in our financial markets. Capital and liquidity requirements will need to be established for *all* significant financial institutions that can have an impact on the stability of our capital and financial markets. These requirements should encourage

meaningful prudence taking into account the firm's risk profile, while permitting critically necessary innovation and thoughtful risk-taking.

Accordingly, the Chamber believes that appropriate capital and liquidity requirements are the preferred means of preventing over-leverage and potential excesses in the financial services sector. In fact, the Chamber has consistently proposed capital requirements as a pro-growth alternative to the Volcker Rule. We appreciate the work the regulators have undertaken in establishing capital and liquidity requirements in the Basel III NPRs and in other initiatives including the yet to be completed application of capital and liquidity provisions of the Dodd-Frank Wall Street Reform and Consumer Protection ("Dodd-Frank Act"). The Chamber is concerned that the regulators, in proposing the Basel III NPRs, have not considered the implications of this rulemaking upon the non-financial business community and the broader economy. This is particularly concerning as capital and liquidity requirements that are *too high* are as dangerous as capital and liquidity requirements that are *too low*.

**1. Failure to Consider Impacts on Main Street Businesses and the Economy**

The regulators in proposing, finalizing, and implementing the Basel III NPRs must take into account the impact the rulemaking will have upon liquidity and capital formation for non-financial businesses. Financial institutions provide capital to businesses and serve as a conduit to match investors and lenders with entities that need funding. Banks, in particular, provide credit and lending that businesses use to expand and create jobs.

Therefore, how the Basel III NPRs impact the ability of financial institutions to lend and extend credit will have a direct bearing upon the ability of non-financial businesses to access the resources needed to operate and expand. In studying the Basel III NPRs, it would seem that the OCC, Federal Reserve, and FDIC are not taking these non-financial business and economic impacts into account.

A contemplation of these issues is critical to insure that financial institutions are acting as the conduit needed to prime the pump of economic growth. Lax capital standards can lead to inefficient allocations of capital that may result in a financial crisis. Overly prescriptive rules and restrictive capital standards can dry up credit and lead to a similar inefficient allocation of capital, harming business and economic growth. This is particularly true with the fragile economic and job growth market that we currently have.

Similarly, stakeholders anticipated the regulators creating rules and systems for large banks, but not for smaller institutions. Such extension is significant as the Basel III NPR's will now have a large impact upon the credit and lending to Main Street businesses. It should be understood that large companies can access capital from many sources, including the vast debt and equity markets. Small businesses are more beholden to bank lending and credit. Applying the Basel III NPRs on smaller institutions will mean that Main Street businesses will face a disproportionate impact upon their ability to engage in capital formation.

Similarly standardized risk weights that punitively impact commercial lines of credit will have harmful consequences to the business community and their ability to operate in a way that is conducive to growth.

As will be discussed below, the failure to consider these effects on non-financial businesses, particularly small businesses, requires further analysis and public commentary before the Basel III NPRs can be finalized.

**2. Enhanced Cost Benefit and Economic Analysis Needed Before Basel III NPR's can be Finalized**

**a. Compliance with Executive Orders 13563 and 13579 on Regulatory Reform**

While the Basel III NPRs must follow the requirements of the Administrative Procedures Act ("APA"), the Federal Reserve, FDIC and OCC each have differing legal standards and internal practices for economic analysis when promulgating a rule.

As an Agency of the Treasury Department, the OCC is the one agency involved in the joint Basel III NPR's that is not an independent agency. While the next section of the letter will deal with the "economically significant" standard, the

OCC must promulgate rules consistent with the Office of Information and Regulatory Affairs ("OIRA") process and Executive Order 13563.

The Federal Reserve is an independent Agency, but it has avowed that it will seek to abide by Executive Order 13563. Consistent with this approach, the Federal Reserve recently stated that it "continues to believe that [its] regulatory efforts should be designed to minimize regulatory burden consistent with the effective implementation of [its] statutory responsibilities."[1]

Therefore, the standards and considerations of costs and benefits and economic impacts vary across the agencies involved in the Basel III NPRs. Given this haphazard and uncoordinated analysis under existing practices, the Chamber recommends that all of the agencies involved in the Basel III NPRs establish a common baseline for cost-benefit and economic analysis by using the blueprint established by Executive Orders 13563 and 13579, in addition to other requirements they must follow.[2] Doing so would allow meaningful, cumulative analysis that would result in a more coherent final rule with fewer harmful, unintended consequences for the American economy.

Executive Order 13563 places upon agencies the requirement, when promulgating rules to:

1) Propose or adopt a regulation only upon a reasoned determination that its benefits justify its costs (recognizing that some benefits and costs are difficult to justify);

2) Tailor regulations to impose the least burden on society, consistent with obtaining regulatory objectives, taking into account, among other things, and to the extent practicable, the costs of cumulative regulations;

3) Select, in choosing among alternative regulatory approaches, those approaches that maximize net benefits (including potential economic, environmental, public health and safety and other advantages; distributive impacts; and equity);

[1] November 8, 2011, letter from Chairman Ben Bernanke to OIRA Administrator Cass Sunstein.
[2] Executive Order 13579 requests that independent agencies follow the requirements of Executive Order 13563.

4) To the extent feasible, specify performance objectives, rather than specifying the behavior or manner of compliance that regulated entities must adopt; and

5) Identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior, such as user fees or marketable permits, or providing information upon which choices can be made to the public.[3]

Additionally, Executive Order 13563 states that "[i]n applying these principles, each agency is directed to use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible."

Conducting the rulemaking and its economic analysis under this unifying set of principles will facilitate a better understanding of the rulemaking and its impact and give stakeholders a better opportunity to provide regulators with informed comments and information.

**b. Failure to Provide a Cost-benefit Analysis as Required Under the Unfunded Mandates Act**

As stated earlier, the OCC is the only agency involved in the rulemaking that is not an independent agency. As such, the OCC must determine pursuant to the Unfunded Mandates Reform Act (UMRA) if the rulemaking will cost state, local or tribal governments or the ***private sector*** more than $100 million. If it does, the OCC must submit the rulemaking for an enhanced review and provide estimates of future compliance costs, impacts upon the economy—including data on productivity, jobs and international competitiveness.[4]

The OCC has stated that the Basel III NPR is not an economically significant rulemaking. We have no doubt that the OCC's Basel III NPR will have costs of more than $100 million and that it is an economically significant rulemaking requiring enhanced review. Either lending to businesses will be reduced, possibly by billions of dollars as a result of the Basel III NPRs, or the costs of bank lending will increase the

[3] Executive Order 13563
[4] See 2 USC 1501, et. seq.

costs for non-financial businesses. Similarly, the Basel III NPRs will place increased regulatory burdens and costs upon non-financial businesses that own financial institutions.

Accordingly, the Chamber believes that an UMRA enhanced cost benefit analysis must be undertaken and put out for comment before the Basel III NPRs are finalized.

**c. Information Collection and OIRA Review**

The Basel III NPRs exclude any information regarding the burdens that affected institutions face in terms of information collection process to comply with the proposals. Clearly, information gathering and collection is necessary to implement and enforce the Basel III NPRs and such a collection process by definition creates costs and burdens. Yet estimates are not provided for commentators to assess. Accordingly, the Chamber believes that the Basel III NPRs should undergo an OIRA information collection review and for that data to be released and subject to public comment. Failure to do so inhibits the ability of stakeholders to understand the proposal and provide the regulators with informed commentary that can improve the Basel III NPRs.

**3. Resolution of Conflicts with other Legislative and Regulatory Requirements**

**a. Study of the Comprehensive Impacts and Interaction of Basel III NPR's with Other Regulatory and Legislative Initiatives**

The Basel III NPRs are not being drafted or considered in a vacuum. They are being developed during a period when the Dodd-Frank Act is being implemented and other regulatory changes are taking place with profound impacts upon the ability of businesses to raise capital. As an example, the one place where many of these issues conjoin is within corporate treasury function of a business. From that vantage point, the Basel III NPRs will impact lending and commercial lines of credit for a business; the Volcker Rule will affect a treasurer's ability to raise capital in the debt and equity markets; and derivatives regulations will have a bearing upon their ability to mitigate risk, while the much discussed money market fund initiatives will harm the commercial paper market and impede the capabilities of treasurers to engage in sound, cash management. Therefore, the development of international capital standards and the cumulative impacts of these developments must be viewed and understood on a broad, holistic basis.

### b. Derivatives End-User Exception

The Chamber has strong concerns that the Basel III NPR[5] may harm end user companies that rely on over the counter ("OTC") derivatives to prudently managing their business risks.

In drafting Title VII of the Dodd-Frank Act, Congress acknowledged the important role derivatives play in mitigating end-users' commercial risks and the corresponding benefit the economy derives from such activity. To ensure OTC hedging remained efficient for end users, Congress crafted an end-user exception from the clearing and trading requirements of Title VII. Further, policy makers have repeatedly emphasized the importance of implementing a derivatives regulatory regime that promotes, rather than discourages, risk management activity by end-users.

The Basel III NPR would significantly undermine Title VII's end-user exception because dealers would be required to hold significantly increased amounts of capital against all uncleared swaps, making uncleared swaps transactions more expensive and driving up the cost of hedging. The Chamber urges the regulators to amend the Basel III NPR to ensure it does not conflict with the end-user exception and the unambiguous intent behind it by making clear that the new CVA capital requirements do not apply to transactions executed with end users when those end users are hedging commercial risk.

### c. The Volcker Rule

The Chamber appreciates the intent of the regulators' inclusion of a discussion in the Basel III NPRs regarding the impact that the Volcker Rule may have upon the capital held by covered institutions. However, it is not possible to give any informed

[5] Specifically, "Advanced Approaches Risk-Based Capital Rule; Market Risk Capital Rule"

commentary on those provisions because the implementing regulations for the Volcker Rule have not been completed. Accordingly, we would request that this portion of the Basel III NPRs be reopened for comment upon the completion of the Volcker Rule. The Chamber also believes that such a re-opening of the Basel III NPRs should also include a broader reconsideration of the inter-play between the Volcker Rule and the Basel III NPRs, primarily taking into account the fact that American institutions are subject to the Volcker Rule and the resulting capital adjustments, while their international competitors are not covered by the Volcker Rule or subject to the capital adjustments resulting from its operation.

**d. Calculation of Risk Weight Averages and Definition of Securitization**

The Chamber is concerned that the calculation and proposed use of risk weight averages may either have distortive impacts upon similarly situated firms. This may create conditions conducive for arbitrage and a lack of certainty that will make the capital markets less able to assess risk and efficiently deploy resources. For example, the Chamber is extremely concerned that standardized risk weights that punitively impact commercial lines of credit will have harmful consequences to the business community. Additionally, definitions and treatment of securitization may conflict with the Dodd-Frank Act. This failure to coordinate yet to be finished regulations may harm those markets and impose additional costs on businesses through due diligence requirements that may be unrealistic. These adverse consequences for securitizations may further damage those markets that are critical to business lending and have yet to recover from the 2008 financial crisis.

**4. Impact of GSIFI's Surcharges Placing U.S. Firms at a Competitive Disadvantage**

The Chamber has strong concerns over the possible imposition of capital surcharges upon Global Systemically Important Financial Institutions ("GSIFIs"). We believe that appropriate capital requirements are necessary to avoid over-leveraging and allowing suitable levels of risk-taking needed to fuel growth and innovation within the overall economy. However, capital surcharges upon GSIFIs come in addition to the Volcker Rule, other Dodd-Frank Act provisions including derivatives regulation, resolution authority and systemic risk regulation, as well as other capital requirements could disrupt that balance placing American financial institutions at a competitive disadvantage. Such a competitive disadvantage may result in raising the cost of capital for *all* businesses and creating a drag on economic growth.

Therefore, the Dodd-Frank Act places both higher capital standards ***and*** the Volcker Rule ban on proprietary trading upon American financial services firms.

American GSIFIs will face an array of regulatory tools and procedures to prevent inappropriate risk taking that their global competitors may not, while not being able to engage in activities that other global firms may.

In such an atmosphere, the imposition of a GSIFI capital surcharge on American financial institutions may place them at a further economic disadvantage, create a drag on our financial services sector, and raise the costs of capital for businesses. These unintended consequences could have ramifications throughout the rest of the economy. An underperforming financial sector will make it more difficult for businesses to raise capital in an increasingly competitive global economy, adversely affecting economic growth and job creation. We believe that the impacts of a GSIFIs capital surcharge, upon the financial system and economy, should be studied before any proposals are implemented.

**5. Uniform International Application**

Recent reports have suggested that the European Union is contemplating delaying the implementation of Basel III because of the continuing pressures of the Sovereign Debt Crisis. The Chamber understands that a financial crisis may not be the best time to implement a new system of regulations. Nevertheless, as Basel III has been developed as a uniform international system it should apply to all simultaneously, and any delay for one segment of the global financial system should then delay the implementation of the system for all participants.

Similarly, uniform capital rules are only homogeneous if their interpretation, application and enforcement are the same across the board. As an example, differences among national regulators as to the quality of capital that must be held to satisfy Basel III requirements will in fact mean that there is no global uniform set of capital rules. Mechanisms are needed so the interpretation and application of the Basel III rules are the same and followed across the board. Failure to do so will create regulatory capital arbitrage and gaps in the overall financial regulatory architecture.

**6. Resolution of Issues Impacting Real Estate Investment Trusts that may Depress the Commercial Real Estate Market**

Real Estate Investment Trusts ("REITS") are an important part of the commercial real estate market that is critical for businesses to have a place to operate. Regulatory initiatives that may restrict the operations or capital flows for REITS can drive up costs or have more harmful consequences for businesses. As mentioned earlier, punitive definitions of securitizations and applications of risk weights have a disproportionate impact upon REITS, and therefore on the commercial real estate markets that are a key part of the infrastructure needed for the business community to operate. These issues need to be resolved to prevent possible dislocations to the commercial real estate markets and the collateral adverse impacts that will be felt throughout the business community.

**7. Resolution of Issues Related to Trade Finance**

As currently drafted, the Basel III NPRs may seriously reduce the availability of trade finance and will significantly increase the cost of these crucial products. Specifically, implementation of a supplementary leverage ratio will have a disproportionately large impact on off-balance sheet trade finance positions, and the proposed calculation of the Asset Value Correlation (AVC) can increase the cost of trade finance to the end user. The application of both these proposals is disproportionate to the low risk nature of trade finance instruments. Additionally, greater clarity is needed on the waiver of the one-year maturity floor for trade finance instruments to ensure all short-term, self-liquidating trade finance products are able to use actual tenor in their capital calculation relative to maturity.

Further, small and medium-size enterprises (SMEs) have a crucial role to play in driving economic recovery, and they rely heavily on trade finance. Unfortunately, the U.S. capital proposals have the potential to harm these important firms the most.

**Conclusion**

The Chamber believes that a balanced approach to capital and liquidity requirements are a pro-growth means of addressing over-leveraging and providing stability in a risk based free enterprise system. The concerns expressed in this letter are primarily centered upon a lack of information that prevents informed commentary and a failure by the regulators to contemplate capital requirements in the sense of the broader macro impacts upon business lending and the economic growth and job creation that results from such activity.

The Chamber believes that a deeper understanding of those issues by regulators, including a universal application, implementation and enforcement of Basel III standards, by all signatories, is integral for these international standards to be effective. The Chamber believes that the regulators also need to address issues related to the broader application of the Basel III standards and how they will impact Main Street business lending. The inclusion of many smaller banks, not originally contemplated by market participants, in the Basel III NPRs may have negative impacts upon Main Street businesses and their growth potentialities. Accordingly, these issues should be addressed before any of the Basel III NPRs are finalized.

Also, increased rigor in the consideration of the Basel III NPRs through an enhanced cost-benefit analysis and compliance with Executive Orders 13563 and 13579 will allow the regulators the ability to consider the current gaps of the Basel III NPRs including the failure to consider impacts upon lending to nonfinancial businesses and the broader economic impacts of the proposals. Finally, an overall study of the comprehensive impacts of the Basel III NPR's and their interaction with other regulatory and legislative initiatives, such as the Dodd-Frank Act, is needed for all stakeholders and regulators to understand if these capital and liquidity standards can be effective and not cause economic harm.

Thank you again for the opportunity to comment upon the Basel III NPRs. We are happy to discuss these issues and others related to the Basel III NPRs in greater detail at your convenience.

Sincerely,

David Hirschmann

**CENTER FOR CAPITAL MARKETS COMPETITIVENESS**

**TOM QUAADMAN**
VICE PRESIDENT

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September 19, 2013

Mr. Wayne Byers
Secretary General of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Re: **Consultative Document, *Revised Basel III leverage ratio framework and disclosure requirements***

Dear Mr. Byers:

The U.S. Chamber of Commerce ("the Chamber"), the world's largest business federation represents the interest of more than three million businesses and organizations of every size, sector, and region. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for the capital markets to fully function in a 21st century economy. The Chamber appreciates the opportunity to comment on the Consultative Document, *Revised Basel III leverage ratio framework and disclosure requirements* ("Proposed Leverage Ratio Framework"), issued by the Basel Committee on Banking Supervision ("BCBS").

The CCMC is concerned the Proposed Leverage Ratio Framework may dislocate the balance necessary for appropriate capital formation and prudent risk management by businesses, thereby harming economic growth and job creation.[1] We also wish to express our concern about the potential creation of inconsistent regulations across jurisdictions and further contribution to the opaqueness attributed to the overall complexity of current Basel III regulatory capital rules ("Basel III").

The CCMC believes the consideration of the Proposed Leverage Ratio Framework should be suspended pending the completion of efforts by the BIS to

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[1] *See* also letter of June 14, 2011 from the Chamber to Federal Reserve Chairman Ben Bernanke on G-SIFI surcharges. See also letter of October 22, 2012 from the Chamber to the regulators commenting on the proposed Basel III regulations.

simplify Basel III[2] and reduce complexity in capital, liquidity and leverage requirements.

## Discussion

The CCMC believes that capital, liquidity, and leverage requirements are important tools to achieve and maintain stability within financial institutions. However, capital standards and leverage ratios that are too arduous can have serious, unintended negative consequences. Allowing suitable levels of risk-taking and providing access to liquid capital markets are necessary elements needed to fuel business growth, job creation and innovation throughout the domestic and global economy. Providing access to liquid capital markets must be balanced with the need to establish appropriate safeguards to maintain the overall safety and soundness of the financial system. An integrated regulatory framework, implemented consistently across jurisdictions, is necessary to provide uniform incentives and disincentives to mitigate potential systemic risks to safety and soundness.

With the growth of the global economy, there have been various efforts to create an international system of capital requirements and leverage ratios. Basel III, the latest effort to achieve international consistency, seeks to impose minimum capital, liquidity and leverage requirements for banks that operate internationally.

### a. Inconsistent Regulation Across Jurisdictions

While Basel III attempts to create a uniform international system of capital requirements, we note with significant concern the increasing number of differences arising in regulatory reforms across major jurisdictions. For example, the Proposed Leverage Ratio Framework, compared to the proposal by U.S. banking regulators to increase the existing minimum leverage ratio requirement for certain large U.S. bank holding companies and their insured depository institutions, results in significant differences in the minimum capital requirements across product types. Such inconsistencies may introduce competitive disparities, operational and enforcement uncertainties, and systemic inefficiencies, all of which could lead to greater systemic

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[2] *See* discussion paper on *The Regulatory Framework: Balancing Risk Sensitivity, Simplicity and Comparability* ("Basel III capital simplification paper").

risks, adversely impact economic growth and impede cross-border capital flows needed for businesses to operate on a global basis.

The CCMC recognized the need for and called for comprehensive regulatory reform before the 2007-2008 financial crisis. Basel III can only be a homogenous standard if its interpretation, application and enforcement are the same across the board. Greater effort is required to minimize the further fragmentation and inconsistencies arising across jurisdictions in capital, liquidity, and leverage frameworks, as well as other regulatory reform initiatives such as resolution authority and derivative regulations. We encourage the BCBS to aggressively pursue coordination efforts to achieve consistent implementation of a uniform regulatory framework. The CCMC also believes the regulatory reforms related to capital, liquidity, and leverage requires further evaluation for internal consistency.

Furthermore, the International Lending Supervision Act ("ILSA") encourages regulators to work with their international counterparts to establish consistent supervisory policies and practices including the establishment of minimum capital requirements. The G-20 has clearly made consistent capital requirements a priority to be addressed in the wake of the financial crisis. While we understand that the depth and structure of markets may require different levels of response, we are concerned that the Proposed Leverage Ratio Framework creates greater inconsistencies within the international framework that frustrates the intent of the ILSA.[3]

An integrated regulatory framework, implemented consistently across jurisdictions, is necessary to provide uniform incentives and disincentives to mitigate potential systemic risks to the safety and soundness of the financial system.

## b. Potential Harm to Economic Growth and Job Creation

We believe that the individual impacts of the Proposed Leverage Ratio Framework and the cumulative impact of other regulatory reform initiatives upon the financial system and global economy should be studied to understand the aggregate impact and consequences of the changes before any proposals are finalized and

[3] *See* October 22, 2012 letter from Chamber commenting on regulations implementing Basel III capital standards and need for international consistency.

implemented. This is necessary to understand the impacts of the Proposed Leverage Ratio Framework upon Main Street businesses and avoid adverse unintended consequences.

Under the Proposed Leverage Ratio Framework, the minimum capital requirements for many products offered by financial institutions to businesses will increase substantially. For example, the minimum capital requirement for unfunded commercial lines of credit increases by more than 30%, relative to Basel III.[4] Facing such material increases in capital costs, financial institutions are likely to either reduce or halt product offerings, restrict credit availability, increase prices for constrained products or a combination of all the above.

Reduced product offerings from financial institutions may impede businesses' ability to access capital and liquidity or to prudently mitigate risk. The unintended consequence of reduced credit availability and higher cost of capital will adversely impact *all* businesses, irrespective of size or sector. Higher financing costs may dramatically change businesses ability to raise capital ultimately slowing both economic growth and job creation.

The Proposed Leverage Ratio Framework is the latest in a series of initiatives that may hamper the ability of businesses to access the capital and liquidity needed to grow and operate. A comprehensive review of these initiatives illustrates:

- The Proposed Leverage Ratio Framework materially increases the minimum capital requirement by product relative to Basel III which may harm the ability of non-financial businesses to access markets to prudently mitigate risk or manage cash and liquidity;

- Capital surcharges upon Global Systemically Important Financial Institutions ("G-SIFIs") will force large internationally active banks to withdraw additional capital from productive capital formation streams;

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[4] Assumes an effective risk weight of approximately 35%, based on a BBB-rated corporate undrawn revolver with a remaining maturity of 3 years.

- The complex regulatory regimes envisioned by the proposed Volcker, Vickers, and Liikanen Rules are expected to impact the ability of non-financial businesses to enter the debt and equity markets by raising costs and creating barriers of entry to the capital markets;

- If the Volcker, Vickers, and Liikanen Rules and other market reforms hamper capital formation the next alternatives are commercial lines of credit, however, Basel III creates disincentives for banks to provide businesses with commercial lines of credit;

- Proposed Money Market Fund reform may harm the ability of non-financial businesses to access the short-term commercial paper markets and manage cash;

- If the Volcker, Vickers, and Liikanen Rules and Money Market Fund reform hamper capital formation the next alternatives are commercial lines of credit, however, Basel III creates disincentives for banks to provide businesses with commercial lines of credit; and

- Other regulatory initiatives including derivatives regulation, which do not take into account non-financial end-user concerns, will impact the ability of non-financial companies to mitigate risk.

The combination of all of these initiatives could lead to an underperforming financial sector, create barriers to capital formation and have unintended ramifications throughout the rest of the economy. The inability of businesses to be able to engage in normal capital formation activities, efficient cash management and effective risk management will raise costs and create inefficiencies adversely impacting economic growth.

**c. Basel III Complexity and Simplification**

Recently, regulators have joined investors and other commentators in raising concerns that the Basel III capital framework is too complex. Part of the concern is that complexity may cause opaqueness, frustrating the goal of safety and soundness by hampering the ability of regulators and investors to understand the health of individual banks or to compare the soundness of different banks. As a result, the BCBS released the Basel III capital simplification paper to achieve a better understanding of the complexity of capital requirements and how to simplify or provide transparency of them to better achieve stability in financial institutions. The comment period for the Basel III capital simplification paper ends on October 11, 2013.

Basel III is the foundation for the system of capital requirements, leverage ratios, and liquidity requirements that global regulators have been building upon since the 2008 financial crisis. Regulators have moved forward in building such a system in multiple jurisdictions, including the United States. In certain jurisdictions, regulators have moved in an aggressive manner to put in place or propose tougher requirements than the majority of other nations. While tough capital rules may be called for, though balanced with other considerations raised previously in this letter, we must question further movement along these lines as the foundation for this system has been called into question.

Initiatives to regulate systemic risks and systemically important firms have not yet been implemented or finalized. It would be prudent for these enhanced tools to be fully fashioned before developing higher leverage ratios that could go beyond the minimums as set by international agreement.

## Conclusion

The CCMC believes that a balanced approach to capital requirements and leverage ratios are a pro-growth means of addressing over-leveraging and providing stability in a risk-based free enterprise system. However, the CCMC is very concerned that the foundation upon which the Proposed Leverage Ratio Framework has been built on is being questioned by the BCBS as too complex and in need of simplification. Accordingly, the CCMC believes the BCBS should suspend consideration of the Proposed Leverage Ratio Framework pending the review of the Basel III simplification paper.

Similarly, we believe that the use of the Proposed Leverage Ratio Framework as a tool to be used in systemic risk regulation calls for a similar suspension of consideration pending greater effort to assess the internal consistency with other regulatory reform efforts. In doing so, the BCBS is encouraged to pursue coordination efforts to ensure consistent implementation of an integrated regulatory framework.

Finally, a carefully calibrated system balanced between safety and appropriate risk taking is necessary for the stability of financial institutions and the ability of businesses to access capital and prudently manage risk and liquidity, in order to grow and create jobs. Increasing the capital requirement for products through the leverage ratio, as compared to the Basel III requirements may, in our view, be disruptive to that balance harming economic growth and job creation.

Thank you again for the opportunity to comment upon the Proposed Leverage Ratio Framework, and we are happy to discuss these issues and concerns in greater detail at your convenience.

Sincerely,

Tom Quaadman

CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

TOM QUAADMAN
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September 23, 2013

Mr. Robert de V. Frierson
Secretary
Board of Governors of the Federal Reserve
20th Street and Constitution Avenue
Washington, DC 20551

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Legislative and Regulatory Affairs Division
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Re: **Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and their Subsidiary Insured Depository Institutions; 12 CFR Part 6, Docket ID OCC-2013-0008; RIN 1557-AD69; 12 CFR Parts 208 and 217, Regulation H and Q, Docket No. R-1460, RIN 7100-AD; 12 CFR Part 324, RIN 3064-AE01**

Dear Messrs. Frierson, Feldman, and To Whom It May Concern:

The U.S. Chamber of Commerce ("the Chamber"), the world's largest business federation represents the interest of more than three million businesses and organizations of every size, sector, and region. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for the capital markets to fully function in a 21st century economy. The Chamber appreciates the opportunity to comment on *Regulatory Capital Rules:*

*Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and their Subsidiary Insured Depository Institutions* ("proposed leverage ratio rules") as proposed by the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Office of the Comptroller of Currency ("OCC"), and the Federal Deposit Insurance Corporation ("FDIC") (also collectively known as the "regulators"). [1]

The CCMC is concerned that the proposed leverage ratio rules are premature. The Bank for International Settlements ("BIS") has issued for comment a discussion paper on *The Regulatory Framework: Balancing Risk Sensitivity, Simplicity and Comparability* ("Basel III capital simplification paper") in an effort to reduce the complexity and opaqueness of the Basel III capital agreements (Basel III"). Furthermore, the Federal Reserve has not yet completed the final promulgation of the rules implementing section 165 of the Dodd Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). The proposed leverage ratios are also creating a divergence from international standards. The Chamber also wishes to express concerns that the proposed leverage ratio rules may adversely impact the ability of businesses to attract capital harming their ability to grow and create jobs.[2]

Accordingly, the CCMC recommends that consideration of the proposed leverage ratio rules be suspended pending the review and finalization of regulatory initiatives based on the Basel III capital simplification paper and the final promulgation of the rules implementing section 165 prudential standards.

## Discussion

The CCMC believes that capital, liquidity and leverage requirements are important tools to achieve and maintain stability within financial institutions. However, capital standards and leverage ratios that are too arduous can have serious,

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[1] *See* also letter of September 19, 2013 from the Chamber to the Basel Committee on Banking Supervision commenting on *Revised Basel III leverage ratio framework and disclosure requirements* ("Proposed Leverage Ratio Framework").
[2] *See* also letter of June 14, 2011 from the Chamber to Federal Reserve Chairman Ben Bernanke on GSIFI surcharges and the letter of October 22, 2012 from the Chamber to the regulators commenting on the proposed Basel III implementing regulations.

unintended negative consequences. Allowing suitable levels of risk-taking and providing access to liquid capital markets are necessary elements needed to fuel business growth, job creation, and innovation throughout the domestic and global economy. Providing access to liquid capital markets must be balanced with the need to establish appropriate safeguards to maintain the overall safety and soundness of the financial system. An integrated regulatory framework, implemented consistently across jurisdictions, is necessary to provide uniform incentives and disincentives to mitigate potential systemic risks to safety and soundness.

The proposed Leverage Ratio Rules are buttressed upon the triple pillars of the International Lending Supervision Act ("ILSA"), section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and Basel III. The ILSA encourages regulators to work with their international counterparts to establish consistent supervisory policies and practices including the establishment of minimum capital requirements. Section 165 of the Dodd-Frank Act requires the Federal Reserve to impose prudential standards on large bank holding companies and non-bank financial companies that have been designated as being systemically important. Basel III seeks to impose minimum capital requirements, leverage ratios, and liquidity requirements for banks that operate internationally.

**a. Basel III Complexity and Simplification**

Recently, regulators have joined investors and other commentators in raising concerns that the Basel III capital framework is too complex. Part of the concern is that complexity may cause opaqueness, frustrating the goal of safety and soundness by hampering the ability of regulators and investors to understand the health of individual banks or to compare the soundness of different banks. As a result, the Basel Committee on Banking Supervision released the Basel III capital simplification paper to achieve a better understanding of the complexity of capital requirements and how to simplify them to better achieve stability in financial institutions. The comment period for the Basel III capital simplification paper ends on October 11, 2013.

Basel III is the foundation for the system of capital requirements, leverage ratios and liquidity requirements that global regulators have been building upon since the 2008 financial crisis. The regulators have moved forward in building such a system here in the United States, and in fact, have moved in an aggressive manner to put in place tougher requirements than the majority of other nations. While tough capital rules may be called for, though balanced with other considerations raised later in this letter, we must question further movement along these lines as the foundation for this system has been called into question.

Furthermore, the ILSA seeks to create consistent international standards. The G-20 has clearly made consistent capital requirements a priority to be addressed in the wake of the financial crisis. While we understand that the depth and structure of markets may require different level of responses, we are concerned that the proposed leverage ratio rules are creating a wide divergence from a consistent international framework that frustrates the intent of the ILSA.[3]

**b. Section 165 Prudential Standards**

Section 165 of the Dodd-Frank Act authorizes the development and use of prudential standards to regulate the potential systemic risk of banks and non-bank financial companies that have been designated as being systemically important. Enhanced capital standards, leverage ratios and liquidity requirements are among the tools that the Federal Reserve may use to carry out section 165.

The Comment period for the Section 165 prudential standards closed on April 30, 2012, and to date the final rules have not been finalized and promulgated.[4] The section 165 rules will be the central means of regulating systemic risk for systemically important firms. It would be prudent for these enhanced tools to be fully fashioned before developing higher leverage ratios that go beyond the minimums as set by international agreement.

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[3] *See* October 22, 2012 letter from Chamber commenting on regulations implementing Basel III capital standards and need for international consistency.

[4] *See* letters of January 30, 2012 and April 30, 2012 from the Chamber to the Federal Reserve commenting on the proposed Section 165 prudential standards rules.

**c. Inconsistent Regulation Across Jurisdictions**

While Basel III attempts to create a uniform international system of capital requirements, we note with significant concern the increasing number of differences arising in regulatory reforms across major jurisdictions. For example, the proposed leverage ratio rules, issued by the regulators to increase the existing minimum leverage ratio requirement for certain large U.S. bank holding companies and their insured depository institutions, as compared to the BCBS' proposed leverage ratio framework, results in significant differences in the minimum capital requirements across product types. Such inconsistencies may introduce competitive disparities, operational and enforcement uncertainties and systemic inefficiencies, all of which could lead to greater systemic risks, adversely impact economic growth and impede cross-border capital flows needed for businesses to operate on a global basis.

Basel III can only be a homogenous standard if its interpretation, application and enforcement are the same across the board. Greater effort is required to minimize the further fragmentation and inconsistencies arising across jurisdictions in capital, liquidity and leverage frameworks, as well as other regulatory reform initiatives such as resolution authority and derivative regulations. We encourage the regulators to pursue coordination efforts with the BCBS and other appropriate parties to achieve consistent implementation of a uniform regulatory framework. The CCMC also believes the regulatory reforms related to capital, liquidity and leverage require further evaluation for internal consistency.

Furthermore, the ILSA encourages regulators to work with their international counterparts to establish consistent supervisory policies and practices including the establishment of minimum capital requirements. The G-20 has clearly made consistent capital requirements a priority to be addressed in the wake of the financial crisis. While we understand that the depth and structure of markets may require different levels of response, we are concerned that the Proposed Leverage Ratio

Framework creates greater inconsistencies within the international framework that frustrates the intent of the ILSA.[5]

An integrated regulatory framework, implemented consistently across jurisdictions, is necessary to provide uniform incentives and disincentives to mitigate potential systemic risks to the safety and soundness of the financial system.

**d. Capital Formation Concerns and Potential Economic Impacts**

The proposed leverage ratio rules are the latest in a series of initiatives that may hamper the ability of businesses to access the capital and liquidity needed to grow and operate.

A comprehensive review of these initiatives would illustrate:

- The proposed leverage ratio rules, as applied to major U.S. insured depository institutions, are twice the requirement in Basel III;

- Capital surcharges upon Global Systemically Important Financial Institutions ("GSFIs")will force large internationally active banks to withdraw additional capital from productive capital formation streams;

- The Volcker Rule will impact the ability of non-financial businesses to enter the debt and equity markets by raising costs and creating barriers to entry ;

- Proposed Money Market Fund reform may harm the ability of non-financial businesses to access the short-term commercial paper markets and manage cash;

[5] *See* October 22, 2012 letter from Chamber commenting on regulations implementing Basel III capital standards and need for international consistency.

- If the Volcker Rule and Money Market reform hamper capital formation, the next alternatives are commercial lines of credit; however, Basel III creates disincentives for banks to provide businesses with commercial lines of credit; and

- Other Dodd-Frank Act provisions including derivatives regulation will impact the ability of non-financial companies to mitigate risk.

The combination of all of these initiatives could lead to an underperforming financial sector, create barriers to capital formation and have unintended ramifications throughout the rest of the economy. The inability of businesses to be able to engage in normal capital formation activities, efficient cash management and effective risk management will raise costs and create inefficiencies adversely impacting economic growth.

**Conclusion**

The Chamber believes that a balanced approach to capital requirements and leverage ratios are a pro-growth means of addressing over-leveraging and providing stability in a risk-based free enterprise system. However, the Chamber is very concerned that the foundation upon which the proposed leverage ratio rules has been built is being questioned by the BIS as too complex and in need of simplification. Accordingly, the Chamber believes that the regulators should suspend consideration of the proposed leverage ratio rules pending the review and completion of regulatory initiatives based on the Basel III simplification paper. Similarly, we believe that the use of leverage ratios as a tool to be used in systemic risk regulation calls for a similar suspension of consideration of the proposed leverage ratio rules pending the completion of the Section 165 rulemaking.

Furthermore, a carefully calibrated system balanced between stability and appropriate risk taking is necessary for the stability of financial institutions and the ability of businesses to access capital in order to grow and create jobs. A doubling of the leverage ratios, as compared to the Basel III requirements may, in our view, be disruptive to that balance harming economic growth and job creation.

Thank you again for the opportunity to comment upon the proposed leverage ratio rules, and we are happy to discuss these issues and concerns in greater detail at your convenience.

Sincerely,

Tom Quaadman

U.S. CHAMBER OF COMMERCE

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October 11, 2013

Secretariat of the Basel Committee on
Banking Supervision
Bank for International Settlements
CH-4002
Basel Switzerland

Sent Electronically via baselcommittee@bis.org

Re: **Discussion Paper: *The Regulatory Framework: Balancing Risk Sensitivity, Simplicity and Comparability***

To Whom It May Concern:

The U.S. Chamber of Commerce ("the Chamber"), the world's largest business federation, represents the interests of more than three million businesses and organizations of every size, sector, and region. The Chamber has recently established the Global Risk and Governance Initiative ("GRGI") to promote modern and appropriate international structures for capital formation, risk management and corporate governance needed by businesses to fully function in a 21st century economy. The Chamber appreciates the opportunity to comment on the Discussion Paper, ***The Regulatory Framework: Balancing Risk Sensitivity, Simplicity and Comparability*** ("Basel Simplification Paper") issued by the Basel Committee on Banking Supervision, Bank for International Settlements ("Basel Committee or BIS").

The GRGI agrees that the current Basel III capital system ("Basel III") is too complex. This complexity is at cross-purposes with the goals of Basel III. It produces results that are opaque, and diminish their value as a tool for comparisons across the industry. This problem is exacerbated by an absence of international consistency in application. As a result, regulators and investors are left with a set of opaque standards that defeat the purpose of Basel III to provide a clear and simple system of capital standards designed to enhance the resiliency of banks and the financial sector as a whole. Instead of strengthening the financial sector, impervious capital formulations may destabilize financial firms; prevent regulators from understanding the marketplace and addressing dangers in a timely manner, while inhibiting the reasonable risk taking necessary for economic growth.

In short, it appears that Basel III in its current form is sacrificing the good in a pursuit of the perfect. This quixotic quest may create more harm than good.

Our concerns are discussed in further detail below.

## Discussion

The Chamber agrees that capital standards, if used properly, can be a pro-growth method of promoting a stable financial sector that can still provide businesses with access to the resources needed to grow and create jobs. However, the Chamber has also written to regulators, in the United States and abroad, as well as to the BIS, of concerns regarding the application of onerous capital standards and inconsistent application of global capital standards that could result in an overly risk-averse financial system that can starve businesses of needed resources. This, in turn could lead to stagnant economies and lagging employment.[1]

Basel III is the foundation of the global system of capital requirements, leverage ratios, and liquidity requirements that global regulators have been building upon since the 2008 financial crisis. In some nations, regulators have moved in an aggressive manner to put in place tougher requirements than the majority of other nations. Recently, regulators have joined investors and other commentators in raising concerns about the complexity of the Basel III capital framework. These concerns have been raised because complexity can detract from transparency. By hampering the ability of regulators and investors to accurately evaluate the health of individual banks or to draw meaningful comparisons among peer institutions, complexity can complicate prudential regulation.

[1] As an example see the June 14, 2011 letter from the Chamber to Federal Reserve Chairman Ben Bernanke on the imposition of GISFI surcharges, the October 22, 2012 letter from the Chamber to the Federal Reserve, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency on the Basel III implementing regulations, the September 19, 2013 letter from the Chamber to BIS on revised Basel III leverage ratio framework and disclosure requirements and September 23, 2103 letter from the Chamber to the Federal Reserve, Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency on enhanced leverage ratios.

For Global capital standards to operate appropriately they must be:

1) Clear and understandable;

2) Applied on a uniform basis internationally; and

3) Calibrated to allow for appropriate lending and not unnecessarily restrict access to customers.

As currently constructed, Basel III does not meet this three part test and BIS should be commended for proactively reviewing Basel III to find a better and simpler means of achieving the goals of that three part test. Additionally, as part of the process of simplifying the capital standards, the GRGI believes that it is advisable to carefully examine the impact upon bank's customers, such as the business communities, as well as the broader implications on the economy also need to be studied.

## I. Capital Standards Must be Clear and Understandable

Capital standards must be clear and concise for regulators and market participants to understand the condition of an institution and the overall financial sector. Starting with Basel II, global capital standards have grown increasing complex and difficult to understand. Overly complex capital standards make less useful tools for regulatory scrutiny and market discipline. Basel III standards should be reviewed with an eye towards creating an easy to understand measure of capital adequacy and risk measurement. Overly complex risk weights and models create an impenetrable set of standards that are more likely to be misconstrued than understood. It is also necessary to set the goal of attaining, in undertaking simplification, the metrics which enable meaningful comparisons amongst similarly situated financial institutions.

## II. Basel III Must Be Applied On a Uniform Basis Internationally

While Basel III attempts to create a uniform international system of capital requirements, we note with significant concern the increasing number of differences arising from regulatory reforms across major jurisdictions. For example, the Leverage

Ratio Framework proposed by the Basel committee and the proposal of U.S. banking regulators to increase the existing minimum leverage ratio requirement for certain large U.S. banks[2], results in significant differences in the minimum capital requirements across product types. At the same time, some European commentators and regulators are calling for flexibility in the application of Basel III capital standards.

Such inconsistencies may introduce competitive disparities, operational and enforcement uncertainties and systemic inefficiencies, all of which could lead to greater systemic risks, adversely impact economic growth and impede cross-border capital flows needed for businesses to operate on a global basis.

Basel III can only be a true international guide if its interpretation, application, and enforcement are the same world-wide. Greater effort is required to minimize potential fragmentation among different nations in capital, liquidity, and leverage frameworks, as well as other regulatory reform initiatives such as resolution authority and derivative regulations. We believe the Basel Committee should pursue coordination efforts to achieve consistent implementation of a uniform capital structure. The GRGI also believes the regulatory reforms related to capital, liquidity, and leverage requires further evaluation for reliability and uniformity.

An integrated regulatory framework, implemented consistently across jurisdictions, is necessary to provide consistent incentives and disincentives to mitigate potential systemic risks to the safety and soundness of the financial system.

## III. Capital Standards Must Be Calibrated to Allow for Appropriate Lending and not Unnecessarily Restrict Access to Customers

The GRGI thinks the impacts of Basel III complexity should be studied in conjunction with the cumulative impacts of other regulatory reform initiatives, upon

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[2] *See* the Chamber letter of September 23, 2013 to the Federal Reserve, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency requesting that the proposed rulemaking, *Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and their Subsidiary Insured Depository Institutions,* be suspended pending completion of the Basel III simplification study and the rulemakings implementing prudential standards for systemically important financial institutions under Section 165 of the Dodd Frank Act.

the financial system and global economy, to understand their aggregate impact. A comprehensive study is needed to better understand Basel III complexity and the interaction of the capital standards and other regulatory initiatives upon Main Street businesses, thereby avoiding adverse unintended consequences.

Under Basel III, the minimum capital requirements for many products offered by financial institutions to businesses will increase substantially. Facing such material increases in capital costs, financial institutions are likely to either reduce or halt product offerings, restrict credit availability, increase prices for constrained products or a combination of all the above. Reduced product offerings from financial institutions may impede businesses' ability to access capital and liquidity or to prudently mitigate risk. The unintended consequence of reduced credit availability and higher cost of capital will adversely impact *all* businesses, irrespective of size or sector. Higher financing costs may dramatically change businesses ability to raise capital ultimately slowing both economic growth and job creation.

As an example, the majority of public sector entities, relevant to State law, as well as local ordinance typically require that banks collateralize these deposits. The vast majority of these deposits are collateralized with U.S. government obligations. The increased calibration of the proposed United States leverage ratio and the consequent binding constraints by including these deposits in the denominator. This in turn creates a distortion of the true representation of the health of an institution and may unnecessarily restrict the resources available for business lending. In short, unclear capital standards may unintentionally drive economic activity, or in this case circumstances that may lead to unhealthy inactivity.

The inability of businesses to be able to engage in normal capital formation activities, efficient cash management and effective risk management will raise costs and create inefficiencies adversely impacting economic growth.

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Thank you again for the opportunity to comment on the Basel Simplification Paper and we appreciate that the BIS has undertaken this important project. The GRGI thinks that the simplification of Basel III is necessary for capital standards to achieve their purpose, allow financial regulators to understand the institutions they regulate, permit for a resilient financial sector and provide for the reasonable risk taking needed for businesses to access the funding needed to grow and create jobs.

We are happy to discuss these issues and concerns in greater detail.

Sincerely,

Gary Litman

Tom Quaadman