CSBS SINCE 1902
CONFERENCE OF STATE BANK SUPERVISORS

June 13, 2014

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
RIN 3064–AE12

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW
Suite 3E-218, Mail Stop 9W-11
Washington, DC 20219
Docket ID OCC-2014-0008

Robert de V. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket No. R–1487 RIN AE-16

To Whom It May Concern:

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to comment on the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (FRB), and the Office of the Comptroller of the Currency's (OCC) (collectively, the agencies) joint Notice of Proposed Rulemaking (NPR) to revise the denominator, or Exposure Measure, of the supplementary leverage ratio, entitled *Regulatory Capital Rules: Regulatory Capital, Proposed Revisions to the Supplementary Leverage Ratio*.

State regulators advocate for a dynamic banking industry comprising a diversity of financial institutions, including small community banks and large, internationally active banking organizations. As regulators, we are supportive of a higher quantity and quality of capital in the U.S. banking system to promote safety and soundness and to protect consumers. This proposal demonstrates the ability of regulators to avoid a "one-size-fits-all" standard and appropriately tailors the regulatory framework to accommodate the financial institution's size, scope, complexity, and interconnectedness.

Large, complex, and interconnected banking organizations pose an outsized risk to the U.S. and global banking systems and broader economies, and therefore require a heightened set of prudential regulatory standards. Higher capital requirements are the foundational component of appropriate and meaningful enhanced prudential standards.

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CSBS believes that the agencies' NPR provides regulators with a more credible Exposure Measure. Adopting the Basel Committee on Banking Supervision's (BCBS) recently revised leverage ratio framework, as proposed by the NPR, will better measure, monitor, and prevent the excessive off-balance sheet leverage that proved so devastating to individual institutions, the financial system, and broader economy during the financial crisis. State regulators support the agencies' NPR to revise the supplementary leverage ratio for the advanced approaches institutions.

THE NECESSITY OF A STRONG LEVERAGE RATIO

During the financial crisis, the risk-based capital framework alone proved to be insufficient at preventing a buildup of extensive off-balance sheet leverage at the largest, systemically important banking organizations. Even though these institutions met the letter of the risk-based capital requirements, the framework itself was inadequate at estimating the amount of capital large, overleveraged financial institutions would need to absorb the losses stemming from their off-balance sheet activities. Despite the recent amendments and enhancements to risk-based capital rules, history shows that banking organizations still need a strong, straightforward leverage ratio designed to complement and supplement the more subjective risk-based capital standards.

The agencies have provided necessary global leadership in pushing for higher minimum capital levels held against on- and off-balance sheet exposures. State regulators stand in support of these efforts. In fact, CSBS advocated in an October 21, 2013, comment letter to the agencies to expand coverage of the then proposed Enhanced Supplementary Leverage Ratio to all advanced approaches institutions, and not just the eight U.S. global systemically important banks. CSBS also firmly believes that the 3 percent minimum leverage ratio requirement proposed by the BCBS is an insufficient leverage buffer to promote financial stability. Indeed, the agencies have estimated that many of the largest institutions exceeded, met, or were very close to this 3 percent minimum in the run-up to the crisis, which suggests that the largest banking organizations should be subject to a higher leverage ratio requirement that more accurately reflects their off-balance sheet risks.

ADOPTION OF THE BCBS REVISED LEVERAGE RATIO FRAMEWORK

However, lifting the largest banks' minimum leverage ratio requirement does not fully address the riskiness of their activities. The current U.S. leverage ratio only takes into account on-balance sheet assets reportable under U.S. Generally Accepted Accounting Principles and ignores the enormous breadth of off-balance sheet activity that many of the largest banks engage in, such as derivatives and securities financing transactions. The BCBS revisions to the leverage ratio framework, finalized in January 2014, specifically address these gaps by requiring banks to include their off-balance sheet practices in the leverage ratio calculation. Therefore, adopting the BCBS revised leverage ratio framework would ensure that U.S. advanced approaches institutions would be required to hold capital that accurately captures the riskiness of both their on- and off-balance sheet activities.

CSBS also supports the uniform disclosure templates and requirements that will significantly increase transparency and consistency in measuring and reporting off-balance sheet activities. The financial crisis showed that opaque and underreported off-balance sheet items dramatically understated institutions' leverage and risk exposures, ultimately harming banks and their counterparties. Market participants and regulators alike will benefit from more detailed calculations and reporting of large institutions' leverage exposure. Adopting the BCBS revised leverage ratio framework will also harmonize the treatment of on- and off-balance sheet exposures across jurisdictions, an important regulatory aim for internationally active financial institutions subject to different accounting standards.

CONCLUSION

CSBS appreciates the opportunity to comment on the agencies' proposed revisions to the supplementary leverage ratio. State regulators support the agencies' proposed revisions to the supplementary leverage ratio framework, and believe it provides for better measurement and monitoring of the largest institutions' on- and off-balance sheet risks. It will help prevent the hidden buildup of leverage at globally active banks, and will ultimately promote financial stability and transparency.

Sincerely,

John W. Ryan
President & CEO

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