## Hermes Equity Ownership Services

Hermes Equity Ownership Services Limited 1 Portsoken Street London E1 8HZ United Kingdom

Tel: +44 (0)20 7702 0888 Fax: +44 (0)20 7702 9452

www.hermes.co.uk

October 22<sup>nd</sup>, 2012

Office of the Comptroller of the Currency, Treasury Board of Governors of the Federal Reserve System Federal Depository Insurance Corporation Washington DC

RE: Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action – Dockets OCC–2012–0008, OCC–2012–0009, OCC–2012–0010

Dear members of the Office of the Comptroller of the Currency, Treasury; directors of the Board of Governors of the Federal Reserve System; members of the Federal Depository Insurance Corporation:

We appreciate the opportunity to comment on the three notices of proposed rulemaking (NPR) regarding changes to the capital framework consistent with standards established by the Basel Committee on Banking Supervision (BCBS) and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

By way of background, Hermes is a leading asset manager in the City of London. As part of our Equity Ownership Service (Hermes EOS), we also respond to consultations on behalf of many clients from across the world regarding changes in public policy and the regulatory framework. In all, EOS advises clients with regard to assets worth more than \$140 billion.

We are overall supportive of the proposed changes to the regulatory capital framework and with the various initiatives aiming at restoring confidence in the management of risk within the financial system. We are also confident that the proposed changes contained in the NPRs should provide a useful tool better to assess the risk profiles of financial institutions as enhanced and more transparent information will be available to investors.

We are further encouraged by the planned phased implementation of the newly proposed capital requirements as we believe this should mitigate any potential impact on the competitiveness of the affected companies. We believe that the transition provisions included in the first NPR regarding minimum capital ratios, capital adequacy and the overall incorporation of Basel III capital requirements will allow financial organisations to continue lending to the economy while enhancing their ability to withstand periods of financial stress.



We also welcome the concept of introducing additional categories for the purposes increasing the sensitivity and fine-tuning the calculation of risk-weighted assets at banking organizations as outlined in the second NPR (*Standardised Approach NPR*). We are further encouraged by the NPR's proposal to revise the calculation of risk-weighted assets by using alternatives to credit ratings. We believe that this should not only lead to enhanced transparency but also to overall improved quality of risk reporting.

Whilst we understand the reasons for standardizing some models, there is a danger that if the model is flawed this may create a greater systemic risk. We therefore encourage banks and regulators to be as helpful as possible in their disclosures in relation to capital requirements and wider risk management so that investors can take better informed decisions.

The proposed changes contained in the NPRs overall should bring greater discipline and consistency in calculating and reporting risk at banking organizations. We believe that such change is much needed to restore confidence in the financial system and we are therefore supportive of the initiatives outlined by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Depository Insurance Corporation. We note that whilst adequate capital requirements are important, we believe that it is equally important for regulators and boards of directors to promote appropriate risk management behaviour to ensure that higher standards of capital discipline are adhered to not only to meet regulatory requisites but to foster sustainable long-term performance. It is therefore important that boards address behaviour as well as capital requirements as we fear some bankers will likely already be working out how to game the proposed changes.

We appreciate the opportunity to provide input into the consultations. I would be glad to discuss any of the points above with you further on +44 (0)20 7680 3758 or at <u>m.isaza@hermes.co.uk</u>.

Yours sincerely,

Manuel Isaza Senior Associate