From: Publius

Proposal: 1460 (RIN7100-AD99) Regulatory Capital Rules: Enhanced Supplementary Leverage Ratio Standards for BH

Subject: Reg H & Q - Regulatory Capital Rules

Comments:

Public Comments on Regulatory Capital: Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies, etc.
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Submitter Info:
First Name:
Last Name: Publius
Mailing Address: 666 Greenwich Street
City: New York
Country: United States
State or Province: NY
ZIP/Postal Code: 10014
Email Address:
Comment:

Dear Chairman Bernanke,

We write to you concerning the Joint NPR titled: "Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions." This JNPR is listed as FRS Docket No. R-1460; OCC-2013-0008 and FDIC RIN 3064-AE0.

Firstly, we would like to commend the Fed, the OCC and the FDIC ("Agencies") for this proposed rule. The Supplemental Leverage Ratio ("SLR") set at 5% (6% for IDIs) reduces systematic risk more then all the other financial regulations promulgated over the past four years will combined.

Secondly, responding to Question Five: The 2% buffer on the SLR should be fixed and not "float" between 1% and 2.5% based on the BHC's risk-based-capital ("RBC") surcharge. The logic for this is obvious; Leverage Ratios are intended to be "objective" measures, whereas RBC Ratios are "subjective" measures. Subjective factors go into determining each BHC's RBC-surcharge. Using this subjective surcharge in combination with the objective 3% SLR floor would contaminate the leverage ratio measure by introducing unneeded subjective human judgment into the metric and hence undermine the very purpose of the SLR, which is to be "objective."

Thirdly, responding to NPR Question Eleven: We strongly advise the Agencies to consider the potential National Security issues raised by not excluding U.S. Treasury Debt from the definition of "Total Leverage Exposure." The present United States monetary arrangement overseen by the Fed largely works because of Confidence in the U.S. government, Treasury Debt and the Banking System. Although the net economics to the Country on a cash-flow basis may matter little, the Perception of who is doing what, and what they are doing, matters far more. For instance, when citizens deposit their monies in private banks and these banks turn around and buy Treasuries, no media headlines are generated. Conversely, when instead the private banks pass these deposits onto the Fed while the Fed purchases Treasuries, an entirely different reaction occurs, with the media and market saying the Fed is printing money, even though this "money" is defacto sterilized sitting at the Fed.

Practically, besides overall Confidence, where this has historically intersected with National Security can be observed in the early 1940's during U.S. involvement with World War II. During a four year period the US Government issued debt equal to 100% of GDP, which in today dollars would be around $16 trillion. In the 1940's the US Government issued Treasury Obligations in order to pay citizens and corporations for their wartime productions, these citizens and corporations turned around and deposited the money in Banks and the Banks turned around and purchased the Treasury Obligations. According to the FDIC "Learning Bank" website, US Bank Assets doubled from 1941 to 1945, with of course more than the entire increase driven by Treasury purchases (as private loans were paid down). If today, circumstances forced the US Government to rapidly issue Treasury Obligations today equal to 100% of GDP, i.e., ~$16 trillion, then the money would attempt to flow in a similar way through the financial system as it did in the 1940s. However, the SLR as proposed would preclude the largest Banks, who represent perhaps 2/3rds of US Banking assets from doubling their balance-sheets to accommodate the Treasury sales. Of course the Fed could always purchase these $16 trillion of Treasuries, however given the reactions to the size of the Fed's current balance-sheet, quintupling it may not be in the best interests of the United States.

Additionally on the perception front, the Fed should ask itself, if sudden events or unforeseen regime change caused one of our foreign creditors such as China or Japan to go bid wanted on a Trillion dollars worth of Treasuries, would the United States be better served having the banking system easily digest those treasuries, or having the Fed make the purchase? Given the large concentrated holders (including the Fed) of US Treasury Securities, it serves no U.S. interests to drain even one dollar of liquidity for Treasury Securities from the system.

Lastly, if the Agencies were to exclude Treasuries from the Total Leverage Exposure, then the Fed would gain a new tool for conducting monetary policy, assuming the SLR is used to constrain Banks (while the RBC ratio is used as an indicator). If Treasuries are excluded, the Fed could more directly impact Bank lending by buying/selling treasuries from the banks versus Agencies or Cash, as in addition to liquidity effects, this would directly impact compliance with the SLR, and hence either reduce or increase Banks ability to lend.

We thank the Agencies for considering our comments. Please do not hesitate to contact us if you need any further information.

Your most humble and obedient servant,
Publius