The Systemic Risk Council

January 23, 2013

The Honorable Ben S. Bernanke
Chairman, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Martin Gruenberg,
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Thomas Curry
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Dear Chairman Bernanke, Chairman Gruenberg and Comptroller Curry:

The Systemic Risk Council (SRC)[1] is concerned by the recent decisions to weaken and delay global capital and liquidity standards under the Basel III accords.

As you know, risk-absorbing capital, particularly when combined with stable liquidity, plays an essential role in protecting the financial system from inevitable shocks and substantially reduces the likelihood that these shocks turn into financial crises. Excessive leverage, combined with an over-reliance on unstable, short term funding were leading causes of the near collapse of our financial system in 2008.

While we recognize the need for regulators to make minor adjustments to timetables, it is essential to have higher capital standards in place as soon as possible, and to avoid any further weakening of the liquidity standards. The SRC continues to call on financial regulators to prioritize implementing Basel III for the large, internationally active banks, while at the same time strengthening the Basel III leverage ratio by raising it to 8 percent.

With a higher, simpler leverage ratio, regulators should be able to substantially reduce the complexity of these risk-based requirements overall – and end the reliance on internal risk models to lower minimum required regulatory capital. Not only do models routinely fail in a crisis (precisely when we

[1] Systemic Risk Council: The independent non-partisan Systemic Risk Council was formed by CFA Institute and the Pew Charitable Trusts to monitor and encourage regulatory reform of U.S. capital markets focused on systemic risk. The statements, documents and recommendations of the private sector, volunteer Council do not necessarily represent the views of the supporting organizations. The Council works collaboratively to seek agreement on all recommendations. This letter fairly reflects the consensus views of the Council, but does not bind individual members. www.systemicriskcouncil.org

need loss absorbing shareholder equity most) - their use for regulatory capital purposes can create perverse incentives for risk management and real competitive advantages for larger firms relative to smaller firms doing the same activity. For this reason, we believe that implementation of the Basel III leverage requirement should be a top priority for U.S. banking regulators, and that pending full implementation, U.S. banks should be required to publish their Basel III leverage ratios, as is being done in the U.K.

Minimum risk-based capital requirements should be just that: a minimum. If internal models identify additional risks that require higher capital, firms should be required to raise more equity. Management, boards, examiners, investors and counter-parties deserve an objective and clear minimum risk-based capital baseline.

It is important for the U.S. to exercise global leadership. Strong capital and liquidity requirements are a competitive strength, not weakness, and essential to system stability.

Respectfully submitted,

Sheila C Bair

The Systemic Risk Council
www.systemicriskcouncil.org

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