October 25, 2012

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

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

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


Dear Chairman Bernanke, Comptroller Curry, and Acting Chairman Gruenberg:

I appreciate the opportunity to comment on the three notices of proposed rulemaking cited above. Based on my personal experience in industry and as Secretary of the Treasury under former President George W. Bush, I know how important the flow of financing is to American corporations. To return to solid economic growth in the United States, we need a strong financial sector that can finance corporate growth and expansion.
Large corporations need and want to do business with well-capitalized financial institutions. When over-leveraged financial institutions began to fail in the fall of 2008, the tremendous pull back in credit availability severely impacted corporate growth and earnings and eventually precipitated a serious economic recession. To avoid such disruptions in the future, the corporate sector must be able to rely on a stable financial sector. This means our largest financial institutions need to substantially strengthen both the quality and amount of capital. Your rulemaking actions this June, which I strongly support overall, begin to address this need for stability by proposing good minimum standards. These standards can and should be exceeded, especially at the largest, systemically important banking organizations, and containing leverage must be a higher priority.

Financial markets were clearly skeptical not only of capital requirements based on any instrument other than common equity, but also requirements based on risk weighting of assets. Equity funding (capital) should be strengthened by placing more emphasis on leverage versus risk-weighted assets, and further constraining leverage. The proposed new leverage ratio, set at three percent, for the largest U.S. banking organizations suggests that those banking organizations could leverage their equity by 33 times. By contrast, high tech corporations operate with almost 100 percent equity financing (virtually no leverage) and manufacturing corporations generally operate with roughly equal amounts of debt and equity or assets to equity (leverage) of 2 times.

The new leverage ratio must be substantially higher than the Basel III standard of 3 percent for the largest, complex institutions. The leverage for such institutions should be no greater than 12 to 1, which translates into a minimum ratio of 8 percent, and indeed this minimum could be set more than double that, based on available research. While raising additional capital is not costless, a number of credible studies provide convincing analyses that show the minimal cost of new capital is far outweighed by the benefits of financial stability.¹

I also support the comments submitted by the Systemic Risk Council, of which I am a founding member, especially the need for bank capital rules to be simple and transparent. We cannot allow our largest financial institutions to employ complex models to pare down their capital and build leverage that leads us into another Great Recession.

Thank you for the opportunity to comment on these important rules. Stronger capital requirements will give us a much more resilient financial system, which finance and sustain growth, and help lower our unemployment rate.

Sincerely,

[Signature]

Paul O’Neill, former Chief Executive Officer, Alcoa and former Secretary of the Treasury