The Clearing House
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June 13, 2014

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219
Attention: Legislative and Regulatory Activities Division
Docket ID OCC-2014-0008
RIN 1557-AD81

Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551
Attention: Robert de V. Frierson, Secretary
Docket No. R-1487
RIN 7100-AD AD16

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Attention: Robert E. Feldman, Executive Secretary
RIN 3064-AE12

Re: Regulatory Capital Rules: Regulatory Capital, Proposed Revisions to the Supplementary Leverage Ratio (79 Fed. Reg. 24596)

Ladies and Gentlemen:

The Clearing House Association L.L.C. ("**The Clearing House**")[1] appreciates the opportunity to address the notice of proposed rulemaking by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (collectively, the "**Agencies**") entitled *Regulatory Capital, Proposed Revisions to the Supplementary Leverage Ratio* (the "**U.S. Proposed Revisions**").[2] The U.S. Proposed Revisions are designed to align the denominator of the Agencies' supplementary leverage ratio and "enhanced" supplementary leverage ratio[3] with the

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1 Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing – through regulatory comment letters, amicus briefs, and white papers – the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost $2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the United States. See The Clearing House's web page at www.theclearinghouse.org.

2 79 Fed. Reg. 24596 (May 1, 2014).

3 79 Fed. Reg. 24528 (May 1, 2014). The Agencies issued a final rule implementing the U.S. "enhanced" supplementary leverage ratio at the same time as the U.S. Proposed Revisions.

revisions made by the Basel Committee on Banking Supervision (the "**Basel Committee**") in January 2014 to the denominator of the international Basel III leverage ratio (the "**Basel Revisions**").[4]

The Clearing House continues to support the fundamental notion of a leverage capital ratio[5] that is intended and functions as a backstop floor to a risk-based approach to capital.[6] The incorporation of the Basel Revisions into the existing U.S. supplementary leverage ratio[7] lays the groundwork for a balanced, effective and comprehensive leverage ratio regime that appropriately may serve as such a backstop. For this reason, The Clearing House generally supports the U.S. Proposed Revisions to the extent they promote a consistent leverage ratio calculation across jurisdictions, which is critical to internationally active banking organizations.

As became apparent during the recent financial crisis, a purely risk-based approach to capital may not adequately recognize and measure risk in extraordinary circumstances. A leverage ratio requirement that acts as a backstop floor helps ensure that in times of economic stress, banking organizations will have significant resources available to absorb unexpected losses that may not be adequately captured at such times by exclusive utilization of the risk-based regulatory capital regime. At the same time, however, a leverage ratio also has the potential to create counterproductive incentives for banking organizations to reduce investments in lower-risk assets and/or invest in higher-risk assets because it does not take the relative risk of different asset classes into account.

We look forward to continuing to work with the Agencies directly and through the Basel Committee process as they finalize the U.S. Proposed Revisions and the implementation thereof. In particular, we respectfully request that the Agencies consider further clarifications of, or modifications to, the treatment of certain exposures under the U.S. Proposed Revisions to ensure that (i) the measure of exposure is consistent with actual economic exposure and (ii) the U.S. supplementary leverage ratio continues to function in practice as a backstop floor to risk-based regulatory capital constraints, rather than as the binding capital constraint (either directly or through its incorporation in the Federal Reserve's Comprehensive Capital Analysis and Review). The areas that we believe merit further consideration include, for example, the conditions for netting derivatives and repo-style transactions, the eligible offsets for written credit derivatives, the methodology used to measure exposure for forward-starting repurchase agreements and the scope of other exposures that are treated as off-balance sheet and, therefore, subject to credit conversion factors. In addition, the application of the daily averaging requirement to off-balance sheet exposures would introduce significant practical complexities without, in our view, any offsetting compliance benefit. We also urge the Agencies to exclude cash and U.S. Treasury securities from total leverage exposure. Finally, to assist banking organizations in their capital planning efforts, we request that the Agencies address in the preamble to

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4 Basel Committee, "Basel III leverage ratio framework and disclosure requirements." (January 2014).

5 *See,* The Clearing House comment letter, dated September 20, 2013 to the Basel Committee on the Basel Revisions.

6 Basel Committee, "Basel III: a global regulatory framework for more resilient banks and banking systems" (June 2011).

7 78 Fed. Reg. 62018 (Oct. 11, 2013).

the final rule their intention to consider the replacement of the "current exposure method" with the recently released standardized approach for measuring counterparty credit risk[8] once the Basel Committee has addressed the issue.

The Clearing House, together with other trade associations, submitted technical questions to the Basel Committee that describe in detail interpretive issues relating to measures of exposure. Responses to those questions in the form of responses to "Frequently Asked Questions" or otherwise, and the incorporation of those responses when the U.S. Proposed Revisions are finalized, will assist U.S. banking organizations in their efforts to come into compliance with the supplementary leverage ratio.

Finally, we note that the U.S. Proposed Revisions include proposed disclosure requirements for banking organizations subject to the supplementary leverage ratio. We appreciate the important role that public disclosure can play in "enhanc[ing] transparency and provid[ing] market participants with important information related to the supplementary leverage ratio,"[9] and we look forward to discussions with the Agencies regarding these requirements and how they may be implemented.

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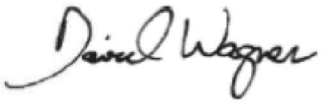
If you have any questions or need further information, please contact me at 212.613.9883 (email: david.wagner@theclearinghouse.org) or Brett Waxman at 212.612.9211 (email: brett.waxman@theclearinghouse.org).

Respectfully submitted,



David Wagner
Executive Managing Director and Head of Finance Affairs
The Clearing House Association L.L.C.

cc: The Honorable Thomas J. Curry
Office of the Comptroller of the Currency

The Honorable Daniel K. Tarullo
Board of Governors of the Federal Reserve System

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8 Basel Committee, "The standardised approach for measuring counterparty credit risk exposures (March 2014, rev. April 2014).

9 79 Fed. Reg. at 24598.

The Honorable Martin J. Gruenberg
Federal Deposit Insurance Corporation

The Honorable Mary Miller
Department of the Treasury

The Honorable Sarah Bloom Raskin
Department of the Treasury

Mr. Martin Pfinsgraff
Office of the Comptroller of the Currency

Mr. Charles Taylor
Office of the Comptroller of the Currency

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