CENTER FOR CAPITAL MARKETS COMPETITIVENESS

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Ms. Ann E. Misback
Secretary,
Board of Governors of the
Federal Reserve System
20th Street and
Constitution Avenue, N.W.
Washington, D.C. 20551

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, S.W.
Suite 3E-218
Washington, D.C. 20219

Re: Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Certain of Their Subsidiary Insured Depository Institutions; Total Loss-Absorbing Capacity Requirements for U.S. Global Systemically Important Bank Holding Companies; 12 CFR Part 6 [Docket ID OCC–2018–0002] RIN 1557–AE35; 12 CFR Parts 208, 217, and 252 [Docket No. R–1604] RIN 7100 AF–03.

Dear Ms. Misback and To Whom It May Concern:

The U.S. Chamber of Commerce ("Chamber")[1] created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. The CCMC has commented[2] extensively on capital, leverage, and liquidity rules issued by the Board of Governors of the Federal Reserve (the "Federal Reserve") and other banking regulators in the past. We believe that appropriate leverage and capital

[1] The Chamber is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are users, preparers, and auditors of financial information.

[2] *See also* letter of June 14, 2011 from the Chamber to Federal Reserve Chairman Ben Bernanke on G-SIFI surcharges, letter of October 22, 2012 from the Chamber to the regulators commenting on the proposed Basel III regulations, letter of September 19, 2013 from the Chamber to the Bank of International Settlements commenting on *Revised Basel III leverage ratio framework and disclosure requirements,* letter of September 23, 2013 from the Chamber to the regulators on *Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and their Subsidiary Insured Depository Institutions*, letter of January 31, 2014 on *Liquidity Coverage Ratio,* letter of February 2, 2015 on *Total Loss Absorbing Capacity*, April 1, 2015, *GSIB Surcharge* and March 27, 2016, *Total Loss Absorbing Capacity*.

requirements are necessary to avoid over-leveraging; however, leverage and capital standards that are too onerous can have serious, unintended negative consequences. Allowing suitable levels of risk-taking is a necessary element needed to fuel growth and innovation within the overall economy.

We appreciate the opportunity to comment on *Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Certain of Their Subsidiary Insured Depository Institutions; Total Loss-Absorbing Capacity Requirements for U.S. Global Systemically Important Bank Holding Companies* ("enhanced supplementary leverage ratio"). The CCMC believes that this proposal strikes an appropriate balance between stability and growth.

The Federal Reserve and the Office of the Comptroller of the Currency (collectively, the "Agencies") have jointly published a proposed rule to tailor leverage ratio requirements to the business activities and risk profiles of the largest domestic firms. Currently, firms that are required to comply with the "enhanced supplementary leverage ratio" are subject to a fixed leverage standard, regardless of their systemic footprint. The proposal would instead tie the standard to the risk-based capital surcharge of the firm, which is based on the firm's individual characteristics. The resulting leverage standard would be more closely tailored to each firm.

Enhanced supplementary leverage ratio standards apply to all U.S. holding companies identified as global systemically important banking organizations ("GSIBs"), as well as the insured depository institution subsidiaries of those firms. Currently, GSIBs must maintain a supplementary leverage ratio of more than five percent, which is the sum of the minimum three percent requirement plus a buffer of two percent, to avoid limitations on capital distributions and certain discretionary bonus payments. The insured depository institution subsidiaries of the GSIBs must maintain a supplementary leverage ratio of six percent to be considered "well capitalized" under the Agencies' prompt corrective action framework.

The proposed rule would replace the current two percent leverage buffer that applies uniformly to all GSIBs with a leverage buffer tailored to each GSIB, set at 50 percent of each firm's GSIB risk-based capital surcharge. For example, if a GSIB's risk-based capital surcharge is two percent, it would now be required to maintain an enhanced supplementary leverage ratio of more than four percent, which is the sum of the unchanged minimum three percent requirement plus a modified buffer of one percent. For insured depository institutions, the proposed rule would replace the

current six percent threshold at which such entities are considered "well capitalized" under the prompt corrective action framework with a threshold set at three percent plus 50 percent of the GSIB surcharge applicable to the insured depository institution subsidiary's GSIB holding company. Finally, the proposed rule would make a corresponding change to each GSIB's external total loss-absorbing capacity ("TLAC") leverage buffer and long-term debt requirement and make additional minor amendments to the TLAC rule.

Overall, the Agencies' staffs estimate that the proposed changes would reduce the required amount of tier 1 capital for GSIBs by approximately $400 million.

The Agencies believe that risk based and leverage capital requirements work best with other capital requirements when they work as a backstop rather than as a constraint. If capital requirements work as a binding constraint they may create negative incentives that harm the covered institutions and their customers. The Agencies believe that the negative incentives caused by the enhanced supplementary leverage ratio may have led to lower risk business activity in areas such as repo financing, central clearing and custody deposits, despite customer demand.

The proposed reduction in the amount of tier I capital, as the result of the enhanced supplementary leverage ratio proposal, would be $400 million out of the total current tier I capital of close to $1 trillion. The $400 million could be deployed through lending or other forms of capital formation that can help stimulate growth. Furthermore, capital markets would be more efficient with more activity in the areas of repo financing, clearing and taking of custody deposits. We believe that this is a win-win proposition for the financial sector through the promotion of stability and helping to deploy more resources to spur growth.

However, we hope the Agencies will take a broader look at the entire scope of the current complex capital requirement regime. We urge the Agencies to expand their assessment to apply to all leverage ratios, including SLR and the US GAAP Tier 1 leverage ratio. Further, we hope the Agencies will assess international competitive disadvantages when finalizing any revisions. Specifically, the revision to use 50% of the G-SIB buffer is similar to the gold plated Method 2, while the international rules would use 50% of Method 1. We think this would create a competitive disadvantage for US-based GSIBs, and we hope the Agencies will promote American competitiveness when finalizing any rules.

The CCMC strongly supports the proposed enhanced supplementary leverage ratio and stands ready to discuss these issues with you further.

Sincerely,

Thomas Quaadman