January 9, 2014

The Honorable Mario Draghi
Chairman, Group of Governors and Heads of Supervision
Bank for International Settlements
Basel, Switzerland

Dear Chairman Draghi:

We\textsuperscript{1} understand that you will soon consider changes to the international leverage ratio (ILR) recommended by the Basel Committee on Banking Supervision (BCBS) and approved by the Governors and Heads of Supervision (GHOS) in 2010. That agreement set the minimum ILR at 3\% and also included common standards in defining the “denominator” in the ratio to bridge differences between International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles (GAAP) still used in the United States. In July of 2013, U.S. banking regulators proposed a significantly higher ratio of 6\% for the bank subsidiaries insured by the Federal Deposit Insurance Corporation and 5\% for bank holding companies. These rules would apply to the eight largest banking organizations in the US.

The Systemic Risk Council has strongly urged U.S. regulators to toughen constraints on the use of excessive leverage by large financial institutions and in fact, has suggested that the ILR be raised to 8\%, limiting debt to equity levels to approximately 12 to 1. A copy of our comment letter is attached. Regrettably, the stronger ratios proposed by U.S. banking regulators have run into stiff resistance from the financial industry. In addition, recent published reports suggest that the international regulatory community has pressured U.S. banking regulators to delay finalizing these tougher leverage ratios pending further potential changes by the BCBS and GHOS.

Now entering the 6th year after the financial crisis, and 4 years after the 2010 Basel accords, it is time for GHOS members to move forward and finalize financial reforms. At its upcoming meeting, we urge the GHOS to resist industry lobbying against the ILR and approve only changes that would strengthen that seminal 2010 agreement, and make leverage requirements binding and enforceable. And we continue to urge U.S. regulators to promptly raise and finalize the ratios they proposed in July of last year.

Should the GHOS decide to strengthen aspects of the 2010 agreement, for instance, by expanding the kinds of derivatives exposures which need to be included in the denominator, U.S. regulators can still move ahead with those changes but that should not be used as a reason to delay finalizing the pending rules.

\textsuperscript{1} The independent, non-partisan Systemic Risk Council (\texttt{www.systemicriskcouncil.org}) 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.
Sincerely,

The Systemic Risk Council
www.systemicriskcouncil.org

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