

June 3, 2016

Via Electronic Mail

Basel Committee on Banking Supervision
Attn: William Coen, Secretary General
Centralbahnplatz 2
CH-4002 Basel Switzerland

Re: Standardised Measurement Approach for operational risk (March 2016 Consultative Document)

Ladies and Gentlemen:

The Clearing House Association L.L.C., the Securities Industry and Financial Markets Association and the Financial Services Roundtable (collectively, the “Associations”)¹ appreciate the opportunity to comment on the Basel Committee on Banking Supervision’s March 2016 consultative document, “*Standardised Measurement Approach to operational risk*,”² which seeks comment on a proposed “Standardized Measurement Approach” for operational risk (“SMA”) to be incorporated within the Basel Committee’s broader capital adequacy framework.

We share the Basel Committee’s view that historical experience has highlighted significant problems with the Advanced Measurement Approaches for operational risk (“AMA”). For that reason, we strongly support the proposed withdrawal of the AMA framework in favor of a more stable and less complex standardized measure of operational risk that both promotes greater comparability and is appropriately risk-sensitive.³

Further, as suggested above, we support the basic conceptual framework of the proposed SMA, which would combine both uniform, standardized measures of operational risk and firm-

¹ Descriptions of the Associations are provided in Annex A of this letter.

² Basel Committee on Banking Supervision, Consultative Document: Standardised Measurement Approach for operational risk (March 2016), *available at* <http://www.bis.org/bcbs/publ/d347.pdf> (“Consultation”).

³ With respect to the issue of implementation timing, we request that once the SMA is finalized, subject to supervisory approval, banking organizations should have the option to adopt the SMA early, and withdraw from utilizing the AMA.

specific adjustments that reflect the individual operational risk experience and environment of particular banking organizations. To serve as an appropriate and effective part of the risk-based capital regime, this conceptual framework of the SMA must be put into practice in a way that satisfies two key objectives. First, any standardized measure of operational risk should be meaningfully calibrated and supported by robust empirical data. Second, any firm-specific adjustments should reflect the *existing* operational risk environment of individual banking organizations, and not merely historical risk experiences. The failure to achieve either of these key objectives would result in an SMA that is not empirically grounded and/or insufficiently risk-sensitive. As currently proposed, the SMA leaves room for improvement in meeting each of these important objectives.

First, because the proposed SMA would account for organization-specific operational risk profiles via a Loss Component (“LC”) that is wholly backward-looking, it would not reflect the *current* risk environment of any individual banking organization, but instead only its historical loss experiences, which may or may not be relevant to current operational risks of the banking organization as it evolves and changes over time.

Second, because the SMA would rely on a simplistic financial statement-based measure of operational risk – the Business Indicator (“BI”) component – it would ignore meaningful differences in the operational risk inherent in various bank activities and businesses. In particular, according to a comprehensive survey conducted by The Operational Riskdata eXchange Association on the potential capital impact of the SMA (the “ORX Study”), the correlation between gross income and the BI is 96 percent, indicating that gross income and the BI behave in a very similar manner.⁴ Because gross income and bank size are themselves highly correlated, the BI is also highly correlated with size.⁵ Accordingly, the result of the BI component is a standardized measure that is primarily sensitive to size, and not to operational risk. For example, two banking organizations with similar size and net income would receive the same BI component, even if the operational risk profile of such organizations was vastly different due to operating completely different lines of business. The size-sensitive (rather than risk-sensitive) nature of the BI component is further exacerbated by the proposal’s disproportionate increase (through increasing coefficients) of the capital charges levied on firms with a higher BI, effectively making the SMA yet another capital surcharge on the size of a banking organization.

Unless these two weaknesses are addressed, the SMA would effectively require banking organizations to hold capital based on size and historical experience, rather than against operational risk, with larger banks required to hold proportionally more operational risk capital and facing the greatest increases in capital requirements.⁶ To address these shortcomings, we

⁴ See The Operational Riskdata eXchange Association, CAPITAL IMPACT OF THE SMA, ORX BENCHMARK OF THE PROPOSED STANDARDISED MEASUREMENT APPROACH 5 (May 18, 2016), available at <https://www.orx.org/Lists/PublicDocuments/ORX%20Capital%20impact%20of%20the%20SMA.pdf>. The ORX Study included 54 internationally active banks, 16 of which are global systemically important banks.

⁵ See *id.*

⁶ See *id.* at 4.

urge the Basel Committee to incorporate a range of small but effective changes that would make the SMA meaningfully risk-sensitive, better reflecting the current operational risk profile of financial institutions subject to the SMA. We also urge the Basel Committee to explain the SMA's calibration and provide banking institutions with sufficient information to better understand the calibration and underlying assumptions. Collectively, these steps would ensure that the promising conceptual framework of the SMA is implemented in a way that is empirically tethered, appropriately risk-sensitive and transparently calibrated.

I. Executive Summary

- The SMA's LC should be revised to account for business model changes and address other shortcomings.
 - The LC should provide a methodology to exclude losses from discontinued/disposed businesses.
 - The LC should require banking organizations to adopt the date of accounting for purposes of building the LC data set.
 - The LC should appropriately consider the relative materiality of individual losses.
 - The *de minimis* gross loss threshold for inclusion in the LC data set should remain calibrated at €20,000, rather than at €10,000.
 - Timing losses should be excluded from the LC data set.
- LC amounts under the SMA should be denominated in local currency for each jurisdiction.
- The SMA should recognize the benefits and risk-mitigation of insurance and other hedging mechanisms.
- The SMA's linear normalization ratio for high net interest margin should be applied at the line of business level.
- The Basel Committee should provide the empirical basis for its most recent calibration.

II. The SMA's LC should be revised to account for business model changes and address other shortcomings.

The proposed LC is intended to introduce risk-sensitivity into the SMA by adjusting the operational risk capital charge implied by a banking organization's BI to account for the idiosyncratic operational risk profile of that banking organization. Although this approach represents a significant improvement over the approach proposed in the Basel Committee's

earlier 2014 consultation,⁷ it remains flawed as the proposal remains entirely backward-looking. While the LC is inherently *loss*-sensitive as it captures a banking organization's historical loss experience over the prior ten years, the LC is not appropriately *risk*-sensitive, as it does not account for developments that may render prior losses irrelevant and perhaps misleading with respect to the *existing* operational risk profile of a bank – for example, business model changes or successful remediation efforts. While it is fundamentally true that loss experience and risk may often be correlated, this relationship is not absolute; overreliance on idiosyncratic loss experience could therefore materially understate or overstate the inherent riskiness of certain activities. For these reasons, the Associations recommend the following changes, which are intended to make the LC better reflect existing rather than past operational risk profiles.

A. The LC should provide a methodology to exclude losses from discontinued/disposed businesses.

As proposed, the LC would use a banking organization's average historical loss experience over the prior 10 years as a proxy for the institution's idiosyncratic operational risk profile, but is indifferent as to whether historical loss events pertain to activities or businesses in which the banking organization remains actively engaged. In some cases, an institution may have chosen to discontinue or dispose of a business that resulted in large operational risk loss events. Such a business model change would eliminate the relevance of a prior loss for the discontinued or disposed business in predicting future losses; yet the LC would continue to incorporate such prior losses. In order to address this inherent shortcoming of the LC, we recommend that it allow for appropriate adjustments concerning historical losses that, because of the disposal or discontinuation of specific businesses or the remediation of specific operational risk failures, are no longer reflective of an individual banking organization's current operational risk profile.

To address this problem, we suggest that the Basel Committee revise the LC to allow a banking organization to exclude losses from a discontinued or disposed business after three years from the date a banking organization meets the requirements described below. This three-year time frame would be consistent with the three-year average used to calculate the BI. It would also be consistent with the AMA's approach to operational risk loss history more generally, which permits removal of historical loss data from a data set under certain circumstances, with regulatory approval. This approach would also provide consistent and parallel treatment of business changes more generally, given that banks that acquire a new business are required to include in their LC data sets the historical losses of that business, including those that predate the acquisition.

As part of any such change, strong and well-defined eligibility criteria would be necessary to ensure that there is appropriate and consistent rigor applied to identify such discontinued or disposed businesses. For example, a banking organization could be permitted to exclude losses associated with a discontinued or disposed business only to the extent that it qualified as a "discontinued operation" under U.S. generally accepted accounting principles

⁷ See Basel Committee on Banking Supervision, Consultative Document: Operational risk – Revisions to the simpler approaches (October 2014), available at <http://www.bis.org/bcbs/publ/bcbs291.pdf>.

(“U.S. GAAP”) or IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, as applicable. In order to qualify as a “discontinued operation” under U.S. GAAP, a component or group of components must meet the following narrow criteria, which could be incorporated into the SMA framework:

- The disposal group is a component of an entity (or group of components).
- The component(s) of an entity either:
 - meets all of the six criteria to be considered “held for sale”;⁸
 - is disposed of by sale; or
 - is disposed of other than by sale (*e.g.*, abandonment, spin-off or other transaction).
- The component(s) represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.

Requiring a discontinued or disposed business to meet the equivalent accounting standard would provide banking organizations and supervisors an established, conservative and auditable framework for assessing discontinued or disposed businesses, if any qualify as such, that would enhance the robustness of the exclusion. To further narrow this exclusion, any such exclusion could be subject to a cap of 20 percent of a banking organization’s ten-year average total annual loss (not including the excluded losses).

To determine the date on which a banking organization is deemed to have discontinued or disposed a business, the SMA could rely on the date on which:

- The banking organization’s published financial statements account for the business as a “discontinued operation”;
- The banking organization makes a public securities filing announcing the discontinued or disposed business;
- The banking organization provides a certification and holding company board resolution to its supervisor as to the discontinuance or disposition; or

⁸ In order to be considered “held for sale,” all of the following criteria must be met (ASC 360-10-45-9): (i) management must commit to a plan to sell the component; (ii) the component must be available for immediate sale in its present condition; (iii) an active program to locate a buyer must have been initiated; (iv) the sale of the component is probable and the sale is expected to be completed within one year (subject to limited exceptions when certain events and circumstances occur that are beyond the control of the entity); (v) the sale of the component must be actively marketed; and (vi) actions required to complete the sale make it unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

- Any combination of the above.

If specifically identified liabilities for a discontinued business or business disposition would extend beyond the three-year period (*e.g.*, indemnities, litigation exposures, etc.), such liabilities should be included within the LC.

B. The LC should require banking organizations to adopt the date of accounting for purposes of building the LC data set.

The proposed SMA would require banking organizations to use either the date of discovery (the date on which the banking organization became aware of the event) or the date of accounting (the date when a loss, reserve or provision against a loss was first recognized in the banking organization's financial books and records) to build its LC data set.⁹ In addition, the proposed SMA specifies that banking organizations must use a date no later than the date of accounting for including losses related to legal events in the LC data set.¹⁰

To ensure the LC is as accurate as possible, the SMA should be revised to require banking organizations to use the date of accounting as the reference date for all losses in the LC data set. For example, if the total loss due to an event is \$1 million, the date of accounting would be the date on which the event is recorded in the banking organization's financial books and records. Including loss events in the LC data set based on the date of discovery could significantly overstate a banking organization's operational losses, because such losses may not reflect a banking organization's judgment as to whether an economic loss is likely to be incurred as a result of a given event. Similarly, including losses in the LC data set based on the date of occurrence could significantly understate a banking organization's operational losses, as an event may occur in year one, whereas the full amount of the loss may not be known for several years. If banking organizations are permitted to use the date of occurrence, this could result in a shortening of the ten-year horizon for such loss event. In contrast, the date of accounting most accurately reflects a banking organization's economic loss experience and should therefore be adopted as the reference date for purposes of building the LC data set.

The proposed SMA would also require losses caused by a common operational risk event or by related operational risk events over time to be grouped and entered into the LC data set as a single loss. The aggregation of such events within a single year is appropriate, but should *not* be required for multiple events across multiple years. Requiring banking organizations to combine losses attributable to different years would be inconsistent with the date of accounting approach, because it potentially could require a loss to be retroactively attributed to a prior year (*e.g.*, if the prior year also had a loss in the same "group"), regardless of whether the loss was attributed to the banking organization's financial books and records during the prior year.

C. The LC should appropriately consider the relative materiality of individual losses.

⁹ See Consultation at 9 and 11.

¹⁰ See *id.* at 11.

In addition to the SMA's overreliance on the size of a banking organization as a proxy for operational risk within the BI component, the proposed LC also overstates the relevance of size through its relative penalty on larger operational risk loss events, which is the result of the relatively greater weighting the proposal places on loss events over €10 million and €100 million, respectively. As a simple matter of proportionality, larger banking organizations are more likely to have loss events that exceed these thresholds than smaller banking organizations.

Although we recognize that the SMA would permit variation in the internal loss multiplier ("ILM") based on a banking organization's BI component and support the Basel Committee's efforts to account for the size of a banking organization in the calculation of the ILM, we believe that the LC itself also should take into account the size of a banking organization when accounting for loss events. In particular, the proposed SMA is flawed because the LC multiplier's loss event thresholds are formulated in absolute, rather than relative, terms.¹¹ The result is that the LC becomes overly dependent on the size of the banking organization, which further exacerbates the BI's overemphasis of the same attribute.¹²

Identifying loss event thresholds in absolute terms has the potential to significantly overstate the materiality of such loss events for banking organizations of all sizes. For example, a €500 million loss for a banking organization with a BI of €100 billion would be far less material to the banking organization than the same loss would be for a banking organization with a BI of €20 billion. Furthermore, including a discrete number of fixed loss event thresholds for the purposes of the LC multiplier would introduce undesirable cliff effects. In particular, the weight for losses immediately below a given threshold would be drastically different than for losses at or immediately above a given threshold.

Ultimately, these flaws could result in significant distortions in the LC, limiting its effectiveness to serve as a measure of a banking organization's idiosyncratic loss experience. The standards used for the LC penalty threshold should instead be appropriately based on a relative measure of materiality to the banking organization. While these concerns could be remedied in a number of different ways, we submit the following alternative formulations that would address the concerns noted above.

One alternative would be to eliminate the €10 million and €100 million thresholds for higher multipliers as part of the LC. Although tail events would not be more heavily weighted under a single-tiered approach, this approach would eliminate the possibility that loss events could be overstated based on a banking organization's size. This formulation of the ILM would have the additional benefit of avoiding any cliff effect resulting from a discrete number of fixed weightings.

¹¹ The difficulties associated with the proposal are exacerbated by the lack of empirical evidence to justify the calibration of the unsupported €10 and €100 million LC thresholds. The Basel Committee should provide the empirical evidence used to support the calibration of the €10 million and €100 million thresholds, particularly in light of the extremely punitive weightings, especially for losses larger than €100 million, which are weighted 2.7 times as much as a loss below €10 million.

¹² See ORX Study at 4.

A second alternative would be to assign each BI bucket its own loss thresholds for higher LC multipliers. Banking organizations that fall into a larger BI bucket would use relatively higher LC multiplier loss thresholds and banking organizations that fall into smaller BI buckets would use relatively lower LC multiplier loss thresholds. This formulation of the ILM would enhance the sensitivity to each banking organization's idiosyncratic loss experience and permit greater comparability across banking organizations of different sizes, although we acknowledge that the cliff effects in the proposed SMA would remain.

D. The *de minimis* gross loss threshold for inclusion in the LC data set should remain calibrated at €20,000, rather than at €10,000.

The proposed SMA would permit banking organizations to exclude from their LC data set any losses that did not exceed a specified *de minimis* threshold, not to exceed €10,000. For institutions adopting the SMA for the first time, the SMA would instead permit a *de minimis* gross loss threshold cap of €20,000. The concept of a *de minimis* threshold is conceptually sound and we support its inclusion into the SMA, as the cost of building and maintaining systems to capture and track these *de minimis* operational risk losses would not be commensurate to any attendant benefit, as these items are unlikely to significantly impact the SMA calculation.

However, subject to the comments regarding the denomination of the threshold cap amounts discussed in Section III below, all banking organizations should be permitted to use a *de minimis* threshold cap of €20,000 consistent with the threshold currently permitted under the AMA. The proposed SMA notes that the banking organizations' internal loss data "must be comprehensive and capture all material activities and exposures from all appropriate subsystems and geographic locations." For some geographic locations (*e.g.*, the United States), a *de minimis* gross loss threshold cap of €20,000 would more accurately reflect local standards for materiality and allow banking organizations to continue using the reporting and tracking systems currently in place at such institutions. Consequently, permitting banking organizations to adopt a €20,000 *de minimis* gross loss threshold cap would be consistent with the Basel Committee's desire to capture only those loss events that are truly material. It would permit banking organizations to appropriately tailor standards for loss materiality across their worldwide operations.

E. Timing losses should be excluded from the LC data set.

The SMA would require banking organizations to include negative economic impacts booked in a financial accounting period due to operational risk events affecting the cash flows or financial statements of previous or future financial accounting periods, or "timing losses." The SMA notes that "material" timing losses should be included in the LC data set when they arise as a result of operational risk events that span more than one financial accounting period and give rise to legal risk. Although the SMA acknowledges that such events "do not represent a true financial impact on the institution" because they typically represent temporary distortions of a banking institution's financial accounts with a net impact over time of zero,¹³ the proposal suggests that errors that persist across more than one financial accounting period may represent material misrepresentations of the institution's financial statements. The inclusion of timing

¹³ Consultation at 11.

losses does not appear to have been contemplated in the current SMA calibration based on the 2015 QIS and could contribute to significant and unwarranted increases in operational risk capital.

While tracking timing losses may be helpful for risk management purposes, such losses are not an appropriate input in the SMA. We agree with the BCBS as to the transitory nature of timing losses and further submit that these losses would not be a robust input because banking organizations cannot be certain of the availability and accuracy of data relating to these losses over a ten-year time horizon. In particular, to the extent the data cannot be corrected on a retrospective basis, it is unclear how banking organizations would estimate such data.

Accordingly, the SMA should be revised to exclude timing losses. To the extent the Basel Committee deems it necessary to include such losses in some fashion, it should expressly clarify the precise scope of the timing losses it intends to capture, including the threshold for materiality, the definition of “financial accounting period” and whether timing losses would include those items caused by events other than errors in an institution’s financial accounts.¹⁴

III. LC amounts under the SMA should be denominated in local currency for each jurisdiction.

The various buckets and thresholds mentioned in the proposed SMA are denominated in Euros. As has been the practical experience in other Basel Committee frameworks with relevant components denominated in Euros, the reference to a single currency is likely to introduce foreign exchange rate fluctuations that could have an inadvertent and significant impact on operational risk capital charges, limiting both the usefulness of SMA operational risk capital comparisons across jurisdictions and the accuracy and appropriateness of operational risk capital charges within BCBS-member jurisdictions that do not operate on the Euro.

In order to remedy the potential effect that foreign exchange rate fluctuations might have on SMA operational risk capital, the Basel Committee should ensure that the SMA explicitly provides that all thresholds may be translated and denominated in local currency when implemented by national supervisors.

IV. The SMA should recognize the benefits and risk-mitigation of insurance and other hedging mechanisms.

The proposed SMA would require banking organizations to identify insurance recoveries for all operational loss events, but does not permit insurance to reduce a banking organization’s SMA operational risk capital. The Associations believe that insurance arrangements and their risk-mitigating effects are meaningful, affect the true risk exposure that a banking organization faces and, therefore, should be taken into account in the SMA framework.

¹⁴ We agree that with the Basel Committee that timing losses very rarely ever give rise to legal risk. *See* Consultation at 11. To the extent legal risk does arise from timing losses, it would otherwise be appropriately captured within the SMA such that separate inclusion of timing losses would be unnecessary.

In particular, we believe it is critical to revise the SMA to recognize the risk-mitigating effect of hedge mechanisms, such as insurance, as is the case for the Basel Committee's market and credit risk capital frameworks.¹⁵ As proposed, the SMA does not provide a clear mechanism to reflect the impact of risk-mitigating actions taken by the institutions, other than through a gradual decrease in observed losses that would slowly lower the LC over time. In order to recognize the effect of risk-mitigating mechanisms, the SMA should be revised to allow for adjustments to the otherwise applicable capital requirement. In particular, to retain the spirit of simplicity of the SMA, any recognition of hedging mechanisms should be simple and transparent, such as through ex-post adjustments to the otherwise applicable capital requirement using standardized supervisory haircuts. Permitted hedging mechanisms would have to meet specified criteria, including with respect to the timely payment of the contingent claims and conformance with the assumptions used in setting supervisory haircuts.

V. The SMA's linear normalization ratio for high net interest margin should be applied at the line of business level.

The consultative document states that, under the original formulation of the BI under the SMA, business models with high net interest margin ("NIM"), defined as the net interest income divided by the interest-earning assets, had very high BI values, which could lead to regulatory capital that is too conservative relative to the operational risk faced by these banking organizations. As a result, the proposed SMA would cap the BI's interest component at 3.5 percent of a banking organization's average interest-earning assets.

We strongly support the Basel Committee's efforts to address the difficulty in calibrating the BI for banking organizations with high NIM, which itself is indicative of the BI's weaknesses as a standardized measure of operational risk. However, the proposed adjustment would only cap the BI's interest component at the *institutional* level, which would result in distortions in the operational risk capital required for diversified institutions that engage in high NIM businesses. In particular, the cap implies that a financial institution with an overall NIM under 3.5 percent but that has one or more businesses that are likely to have a NIM greater than 3.5 percent (such as a credit and charge card business) could be assessed a much higher operational risk capital charge than a financial institution engaged in the same high NIM businesses, but with a different overall business model mix. This result would be completely inapposite to the comparable and risk-sensitive treatment of the operational risk of high-NIM businesses across different firms.

For example, consider a financial institution engaged in a high NIM business but with an institutional weighted average NIM below the 3.5 percent cap. A \$100 loan with a 10 percent NIM would contribute \$10 to that institution's BI. In contrast, the same loan held by a financial institution engaged in the same business but with a weighted average NIM above the 3.5 percent cap would only contribute \$3.50 to that institution's BI. Further, under the proposed SMA, an increase in interest rates (and therefore an increase in NIM) would lead to an increase in

¹⁵ See Basel Committee on Banking Supervision, Minimum capital requirements for market risk (January 2016), available at <http://www.bis.org/bcbs/publ/d352.pdf>, Basel Committee on Banking Supervision, Basel II: Revised international capital framework (June 2006), available at <http://www.bis.org/publ/bcbs128.pdf>.

operational risk capital requirements to the extent an institution is below the cap. Similarly, when interest rates (and therefore NIM) fall, operational risk capital charges implied by the SMA would decrease, without any clear indication that the lower interest rate environment led to a reduced operational risk exposure.

To alleviate this concern, we recommend that the 3.5 percent NIM cap be applied at a line of business level (as under the current version of the Basel Committee's Standardised Approach to operational risk) as opposed to the institution level. Applying the NIM cap at a line of business level would further the Basel Committee's goal of preventing regulatory capital that is too conservative relative to the operational risk faced by these businesses, without disadvantaging banking organizations that have one or more high NIM businesses, but an overall weighted average NIM under 3.5 percent.

VI. The Basel Committee should provide the empirical basis for its most recent calibration.

Although Annex 3 to the 2014 Basel Committee consultation on operational risk capital provides a statistical and theoretical basis for the BI approach, it does not provide the details of the analysis that the Basel Committee performed to formulate the BI. Because the proposed SMA, including the BI, relies heavily on calibrated supervisory inputs, additional transparency sufficient to permit the independent review and validation of the proposed SMA is needed to ensure its credibility as a risk-based capital tool.

In particular, the proposal states that the BI (and presumably its coefficients) was calibrated using data from the 2015 operational risk QIS, but those QIS results never have been made public. In addition, the proposed SMA does not include any explanation of how or why those results justify the BI calibration presented in the proposal or suggest that independent review or validation of such justification has been performed. We urge the Basel Committee to publish those results and subject its conclusions to independent review and validation.

The proposed SMA also notes that the Basel Committee will perform another QIS (which was recently completed) and take its results into account when calibrating the final SMA, but there is no clear sense as to how that calibration will be approached and whether the Basel Committee will seek any public comment on those QIS results and the resulting calibration. We are concerned that our ability to comment meaningfully on the proposal is substantially hindered by the absence of a comprehensive quantitative analysis and the lack of disclosure of the underlying data the Basel Committee relied upon preliminarily to calibrate the SMA. We urge the Basel Committee to disclose for public comment and independent review and validation the empirical support used to justify the coefficients that translate the BI component into a baseline capital charge.

Finally, we suggest that the Basel Committee regularly perform QIS and recalibrate the framework as necessary and appropriate based on those results to ensure that the assumptions in the SMA remain current and accurately reflect banking organizations' operational risk profiles.

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The Associations appreciate the opportunity to comment on the proposal. If you have any questions, please contact Brett Waxman at (212) 612-9211 (e-mail: brett.waxman@theclearinghouse.org), Carter McDowell at (202) 962-7327 (e-mail: cmcdowell@sifma.org) or Richard Foster at (202) 589-2424 (e-mail: richard.foster@fsroundtable.org).

Respectfully submitted,



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Alfred Seivold
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ANNEX A

The Clearing House. The Clearing House is a banking association and payments company that is owned by the largest commercial banks and dates back to 1853. The Clearing House Association L.L.C is a nonpartisan organization that engages in research, analysis, advocacy and litigation focused on financial regulation that supports a safe, sound and competitive banking system. Its affiliate, The Clearing House Payments Company L.L.C., owns and operates core payments system infrastructure in the United States and is currently working to modernize that infrastructure by building a new, ubiquitous, real-time payment system. The Payments Company is the only private-sector ACH and wire operator in the United States, clearing and settling nearly \$2 trillion in U.S. dollar payments each day, representing half of all commercial ACH and wire volume.

The Securities Industry and Financial Markets Association. SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over \$2.5 trillion for businesses and municipalities in the U.S., serving clients with over \$20 trillion in assets and managing more than \$67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

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