The Clearing House
At the Center of Banking Since 1853

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July 15, 2014

The Honorable Daniel K. Tarullo
Governor
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Appropriately Tailoring Prudential Regulation

Dear Governor Tarullo:

I am writing to express The Clearing House's appreciation and support for your remarks of May 8, 2014 emphasizing the importance of appropriately tailoring the application of prudential regulation based on the size, scope, and range of activities of individual banking organizations and further suggesting that the universe of bank holding companies currently subject to enhanced prudential standards under Title I of the Dodd-Frank Act, based solely on their asset size, may be overly broad.

As an organization representing the interests of banking organizations of a wide range of sizes and business types, we agree that the scope of the post-crisis prudential framework, including the Basel III capital and liquidity framework and the enhanced prudential standards established under Title I, should be appropriately tailored and scaled to the diversity of banking organizations and business models that exist in the United States. Accordingly, we share your view that prudential regulation should vary according to the size, scope, and range of activities of banking organizations, reflecting the different types and levels of systemic risk they may pose.

The Clearing House has frequently emphasized in our comment letters and other public statements that a "one-size-fits-all" approach to regulation, and to macroprudential regulation in particular, is inappropriate and would inherently fail to account for the wide variety of business models and practices that exist among individual institutions.[1]

1 *See, e.g.,* The Clearing House, *Comment Letter to the Board of Governors of the Federal Reserve System re: Enhanced Prudential Standards and Early Remediation under Dodd-Frank 165/166* (April 27, 2012) at 20. Further still, Congress similarly recognized the importance of this goal when it passed the Dodd-Frank Act. Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 165(a)(2), 124 Stat. 1376, 1423-24 (2010) ("In prescribing more stringent prudential standards . . . the Board of Governors may . . . differentiate among

Similarly, The Clearing House also strongly believes that the application of heightened prudential standards should not simply be a function of an organization's asset size, but should instead be based on a holistic, individualized assessment of the wide range of factors that may ultimately inform one's view of that organization's overall risk profile and the specific systemic risks that it may pose. We have frequently pointed out that asset size alone is an unreliable indicator of firm-specific or systemic risk, and thus automatic asset-based thresholds are equally unreliable bases for the application of the specific prudential rules that are intended to address those risks.[2]

For these reasons, we are heartened by your leadership and willingness to publicly highlight the benefits of appropriately scaled and tailored regulation. We continue to harbor significant concern with any approach to tailoring the scope of prudential rules based on asset size alone. As the Federal Reserve, Congress, and other policymakers consider regulatory, legislative, and other actions to address this important question, The Clearing House would be pleased to offer whatever assistance might be helpful in tailoring a prudential framework that effectively but sensibly supports our jointly-held objective: a sound, stable and competitive financial system that supports the health and growth of the American economy.

With Regards,

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cc: The Honorable Janet Yellen
Board of Governors of the Federal Reserve System

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companies on an individual basis or by category, taking into consideration their capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the Board of Governors deems appropriate.").

2 *See* The Clearing House, *Vanquishing TBTF: Rhetoric Versus Reality and the Value of Systemically Important Banks in the Global Financial System* (Mar. 26, 2013) at 15.

The Honorable Jack Lew
Department of the Treasury

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

The Honorable Martin J. Gruenberg
Federal Deposit Insurance Corporation

The Honorable Richard Cordray
Consumer Financial Protection Bureau

The Honorable Timothy Massad
Commodity Futures Trading Commission

The Honorable Mary Jo White
Securities and Exchange Commission

The Honorable Mel Watt
Federal Housing Finance Agency

Debbie Matz
National Credit Union Association