

TCH Provides Recommendations to Basel Committee on its Proposed Revisions to the Standardized Approach for Credit Risk and Capital Floors

TCH supports BCBS Credit Risk Proposal as an important first step in improving the assessment of credit risk under the Standardized Approach

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New York, NY – March 27, 2015 – On Thursday morning, The Clearing House Association (The Clearing House) filed a comment letter with the Basel Committee on Banking Supervision in response to its “Revisions to the Standardized Approach for Credit Risk and Capital Floors: The Design of a Framework Based on Standardized Approaches” Proposals (the Proposals), which the Basel Committee published for public comment in December 2014.

In the letter, The Clearing House identifies areas where the Proposals should be modified to better achieve the Committee’s stated objectives of making the Standardized Approach more risk-sensitive, reducing reliance on external credit ratings and strengthening the comparability of risk-weighted asset calculations across jurisdictions. The U.S. Standardized Approach, which came into effect only on January 1, 2015, acts as a statutory floor for organizations that calculate their risk-based capital ratios under the Advanced Approaches rules. While The Clearing House generally favors globally consistent capital standards, changes to the Standardized Approach by the Basel Committee may not affect organizations in other jurisdictions that calculate their capital ratios only under the Advanced Approaches while U.S. federal banking agencies could be faced with the unfortunate choice of having to apply both the minimum U.S. Standardized Approach and some version of the revised Basel Standardized Approach to at least some subset of U.S. banking organizations.

“The Clearing House strongly supports the Basel Committee’s efforts to improve the Standardized Approach,” said David Wagner, Executive Managing Director and Head of Finance, Risk and Audit Affairs at The Clearing House. “However, we believe it is imperative that the Committee carefully calibrate the Standardized Approach risk weights resulting from any modifications based on QIS data, so that the Revised Standardized Approach is appropriately risk-sensitive as an empirical matter.”

The Clearing House's comment letter provides a number of additional constructive recommendations to the Basel Committee for improvements to the Basel Standardized Approach, including: adoption of a measurement methodology based on a concept of "investment grade" for corporates, eligible fund collateral and investment funds; consideration of other regulatory initiatives that either are designed to address the same concerns or that are likely to have a significant impact on participants in the market for affected products in designing potential modifications to the existing credit risk mitigation framework; continued recognition of credit derivatives without a restructuring clause as eligible financial collateral since U.S. market practice has not required such clauses due to existing U.S. bankruptcy law; elimination of the core market exemption; retention of appropriate elements of national discretion designed to address domestic legal restrictions or market practice; and adoption of an aggregate floors approach.

About The Clearing House. 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 and which employ over one million people in the United States, and more than two million people worldwide. The Clearing House Association L.L.C. is a nonpartisan advocacy organization that represents the interests of its owner banks by promoting and developing policies to support a safe, sound and competitive banking system that serves customers and communities. Its affiliate, The Clearing House Payments Company L.L.C., which is regulated as a systemically important financial market utility, owns and operates payments technology infrastructure that provides safe and efficient payment, clearing and settlement services to financial institutions, and leads innovation and thought leadership activities for the next generation of payments. It clears almost \$2 trillion each day, representing nearly half of all 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.