Northern Trust Corporation
50 South LaSalle Street
Chicago, Illinois 60603
(312) 630-6000

Northern Trust

Joyce St. Clair
Executive Vice President
Corporate Risk Management

April 16, 2010

Secretariat
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland

Re: Consultative Document: Strengthening the Resilience of the Banking Sector

Ladies and Gentlemen:

Northern Trust Corporation appreciates the opportunity to comment on the Consultative Document: Strengthening the Resilience of the Banking Sector (the "Document") to the Basel Committee on Banking Supervision within the Bank for International Settlements (the "Committee").

Northern Trust Corporation ("Northern Trust") is a U.S. multi-bank holding company with its headquarters in Chicago, Illinois. The corporation has a growing network of 79 offices in 18 U.S. states and 16 international offices in North America, Europe, the Middle East and the Asia-Pacific region. As of December 31, 2009, Northern Trust had assets under custody of $3.7 trillion (including global custody assets of $1.9 trillion), assets under management of $627.2 billion and banking assets of $82.1 billion. Northern Trust conducts its global activities through the Northern Trust Company (an Illinois-chartered bank with subsidiary banks and branches in the U.K., Europe, Asia-Pacific and China), Northern Trust N.A (a U.S. national bank headquartered in Florida), Northern Trust Bank, FSB (a federal thrift banking institution headquartered in Michigan), an investment advisory company, an Edge Act subsidiary, and a number of other non-bank subsidiaries. As a major international trust-processing bank, Northern Trust has long understood the importance of maintaining a strong liquidity and capital position across all types of market and economic environments.

General Comments:

Northern Trust supports the development and implementation of a global framework to strengthen the banking sector and to support international competitive equality. In the spirit of competitive equality, Northern Trust respectfully requests that inconsistencies between the U.S. rules and the newly proposed BIS rules be minimized.

The timing of the responses related to the Document, due April 16, 2010, precedes the underlying quantitative results associated with the Quantitative Impact Studies, currently in process with a completion date of April 30, 2010. A subsequent comment period providing the ability to align the qualitative concerns with the resulting quantitative results will be beneficial to all stakeholders.

Definition of Tier 1 Capital:

Per the proposed rule, innovative hybrid capital instruments with an incentive to redeem through features like step-up clauses, currently limited to 15% of the Tier 1 capital base, will be phased out. Encompassed in the definition of hybrid instruments is Trust Preferred Stock.

The disallowance of these tax-advantaged securities would have a negative impact to the U.S. banks capital base. The underlying characteristics of this mezzanine financing allows it to effectively absorb losses. We propose the Committee reconsider the disallowance of these instruments. If the proposed elimination of the Trust Preferred securities is retained in the final rule, an appropriate grandfather provision is requested.

Capital Buffer:

The Committee is introducing a series of measures to promote the build up of capital buffers in good times that can be drawn upon in periods of stress. While we agree with a capital buffer, the prescribed capital buffer seems duplicative to the Pillar 2 capital adequacy process. We request that the Pillar 2 results be the primary determinant as to the appropriateness of necessary capital measures. The capital buffer should be utilized as a supplemental tool to the Pillar 2 process.

Our primary concern is that the capital buffer will create excessive capital on top of the additional capital determined through the internal capital adequacy assessment process. Many aspects of the proposed rule reflect an attempt to reduce pro-cyclicality, however, this aspect of the proposed rule may have an opposite effect. The impact of additional capital requirements may contribute to a reduction in lending and economic growth.

Leverage Ratio:

The Committee will introduce a leverage ratio as a supplementary measure to the Basel II risk-based framework. As noted in the proposed rule, this will help contain the build up of excessive leverage in the banking system.

Northern Trust believes the introduction of the leverage ratio is a positive step in reducing competitive inequality which currently exists due to the U.S. leverage ratio that is already in existence. We request that the details of the proposed leverage ratio be harmonized internationally.

The Committee confirms the following in calculating the leverage ratio:

- Physical or financial collateral, guarantees or credit risk mitigation purchased should not be allowed to reduce on-balance sheet exposures;
- Netting is not allowed (this applies to both regulatory and accounting netting for derivatives, repo style transactions and the netting of loans and deposits);

Per the reference above, the proposal does not allow offsetting beneficial components like collateral or guarantees and netting for derivatives to be incorporated in the total exposure calculation. In addition, off-balance sheet items are incorporated, which creates an inconsistency with the U.S. leverage ratio. Off-balance sheet items include indemnified securities lending, standby letters of credit, cancelable commitments and liquidity facilities. The impact of not including risk mitigating components and including off-balance sheet commitments without any risk weighting will potentially result in excess capital required to be held.

Northern Trust requests that consideration be given to the impact of risk mitigation techniques in the exposure calculation and sufficient risk categorization be applied in the incorporation of the off-balance sheet items.

<u>Credit Exposures To and Investments in Financial Institutions:</u>

Per the proposed rule, banks should apply a multiplier of 1.25 to the asset value correlation of exposures to regulated financial firms (with assets of at least $25 billion) and to all exposures to unregulated financial firms (regardless of size). The Committee continues to conduct analysis to assess the appropriate calibration of the proposed multiplier and asset size threshold.

Although the underlying logic to the incorporation of this concept is largely tied to the recent economic crisis, the proposed rule creates an inequality between the financial industry and other equally or more risky industries. In addition, rather than assess the multiplier to an asset value, it may be more appropriate to assess the asset value correlation based on a percent of an institution's asset base.

The proposed rule details the following:

- If the bank has holdings of common stock in a financial institution which exceed 10% of the common stock of the financial institution then the full amount of this holding (not just the amount above 10%) should be deducted from the bank's common equity.
- If the bank has holdings of common stock in other financial institutions which in aggregate exceed 10% of the bank's common equity (after applying all other regulatory adjustments to common equity) then the amount above 10% is required to be deducted.

The impact of the preceding will require additional capital needs across the financial services industry. Prior to the integration of the above, we respectfully request further analysis occur regarding the appropriate correlation factor and increased transparency regarding the underlying analytics.

<u>Procyclicality:</u>

Per the final rule, the Committee is conducting an impact study on the following two specific proposals.

1. The first is based on the use of the highest average Probability of Default estimate applied by a bank historically to each of its exposure classes as a proxy for a downturn Probability of Default;
2. The second is based on the use of an average of historic Probability of Default estimates for each exposure class.

The Committee is evaluating the proposals for a harmonized approach and evaluating if there are additional measures to reduce cyclicality.

Northern Trust requests that as the information on "through the cycle" analytics is derived, each institution be allowed to determine the appropriate data based on their firm's experience. There is an implied reference in the BIS draft document that an industry factor may be calculated and provided by the Committee.

Northern Trust appreciates the opportunity to present its comments on such an important proposal, and we thank you for considering our views. We look forward to working with the Committee going forward on an updated proposal and additional quantitative study. In the meantime, should you have any questions or comments on this response, please feel free to contact me.

Very Truly Yours,

Joyce St. Clair

Joyce St. Clair

CC: Federal Reserve Bank
Office of the Controller of the Currency
Office of Thrift Supervision
State of Illinois
Financial Services Authority