THE ASSOCIATION OF GLOBAL CUSTODIANS

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VIA ELECTRONIC SUBMISSION

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

baselcommittee@bis.org

RE: Consultative Document - Revised Basel III leverage ratio framework and disclosure requirements

Dear Sirs:

The members of the Association of Global Custodians ("Association") are pleased to provide the Basel Committee ("Committee") with views regarding the consultative document of 26 June 2013 on the Revised Basel III leverage ratio framework and disclosure requirements. Association members have, in many cases, submitted individual letters to the Committee or have included their views in comments submitted by other industry associations. Nevertheless, we are submitting this comment letter to draw attention to one specific issue having to do with the management of "excess cash deposits" in times of market stress.

Global custody banks, including members of the Association, provide institutional investors with a broad range of financial services associated with the safekeeping and administration of investment assets. This includes access to the global settlement infrastructure in order to complete the purchase or sale of securities, and various asset servicing and cash management functions that are important to the operation of financial markets. This is encouraged by supervisory authorities as a way of avoiding bottlenecks that might otherwise hamper market efficiency and exacerbate potential system risk.

Global custody banks maintain robust systems to monitor and control the extent of their exposure to their institutional investor clients. While nearly all custody transactions settle as expected, there are occasions where a transaction may be delayed or fail due to timing, matching, systems or other operational impediments. Moreover, there are occasions where transaction volumes can be significant. This includes pay-down dates on asset-backed

securities and other fixed income instruments, the processing of large corporate action events and in periods where institutional investors are actively rebalancing their investment portfolios. Custody related activities can therefore be subject to instances of volatility that may impact measures of regulatory capital, particularly risk-insensitive measures like the Basel leverage ratio.

Global custody banks hold the primary operational accounts of institutional investors used in the management of global investment portfolios. As a result they tend to experience significant 'flight to cash' during periods of market stress as institutional investors seek to reduce their risk exposures. This can result in large spikes in client deposits and therefore significant volatility in on-balance sheet assets. Examples of recent events include the Lehman Brothers crisis of 2008, the US debt ceiling debate of late 2011, and instability in certain Eurozone countries in 2012.

The Association believes that it is important for the Committee to acknowledge this 'flight to cash' phenomenon, as well as the volatility that can accompany payment, clearing and settlement activities generally. In our view this requires the introduction within the Basel leverage ratio of a 'safety valve' that would allow custody banks to address unpredictable spikes in client activities without the need for drastic and potentially destabilizing actions, such as the throttling of payment, clearing and settlement functions or the refusal to accept deposit inflows.

We believe that this can be achieved via the introduction of a targeted adjustment to the exposure measure of on-balance sheets assets in the Basel leverage ratio for placements held at national central banks. Central bank placements are transitory in nature and do not create additional leverage within the financial system. They are also not subject to any decline in their underlying value. The placement of cash at national central banks is also consistent with prudent balance sheet management practices, and has been used with considerable success by the industry to address periods of significant market instability and excess liquidity since the financial crisis.

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The Association appreciates the opportunity to provide you with comments on this particular matter. Members stand ready to provide supplemental comment as appropriate.

Sincerely yours,

Rudy Gadenz

Rudy Gadenz
Chair, Association of Global Custodians