BNY MELLON

September 20, 2013

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

Re: *Revised Basel III Leverage Ratio Framework and Disclosure Requirements*

Ladies and Gentlemen:

The Bank of New York Mellon Corporation (**"BNY Mellon"**)[1] appreciates the opportunity to provide comments to the Basel Committee on Banking Supervision (the **"Committee"),** with respect to the Consultative Document entitled *Revised Basel III Leverage Ratio Framework and Disclosure Requirements* (hereinafter the **"Consultation"**). Our role as a global custodian and a major clearing bank provides a distinct perspective on the Consultation's proposed revisions and broader focus of the Committee's leverage work. BNY Mellon supports the Committee's attention and we support the Committee's stated objective of reinforcing the risk-based capital requirements embodied in the Basel III Accord with a simple, non-risk based "backstop" measure.[2]

Since the crisis, supervisory authorities have appropriately focused on both the quantity and quality of bank capital. These concerns resulted in thorough revisions of regulatory capital standards applicable to banking organizations. Today, due to the Basel III framework and other reform measures, large systemically interconnected banking organizations hold capital that is weighted towards more loss absorbing instruments, and maintain this capital in amounts sufficient to absorb losses under highly stressful scenarios. However, increasing systemic resiliency in a manner where the benefits outweigh the burdens is a delicate balance, and it is important for public sector authorities to avoid unintended consequences. We are very concerned that the Consultation, working in tandem with known national plans to significantly increase the supplementary leverage ratio's numerator, would upset this balance.

Though we support the Committee's work, we believe that certain components of the supplementary leverage ratio (**"SLR"**) require a fundamental rethinking. Our primary concern is that the Consultation fails to consider the likelihood and impact of home and host country regulators enacting "super-equivalent" SLR requirements. In its current form, the Consultation proceeds with its proposed denominator revisions in a vacuum, ignoring the stated plans of national regulators to implement the SLR with calibrations significantly above the Committee's

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1 BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of June 30, 2013, BNY Mellon had $26.2 trillion in assets under custody and/or administration, and $1.4 trillion in assets under management.

2 ¶ 2, Basel Committee, *Revised Basel III leverage ratio framework and disclosure requirements*.

proposed 3% standard. Taken together, the proposed revisions to the SLR's denominator and the likely higher numerator will undermine the stated goals of the Committee. The SLR will not function as a backstop to the risk-based capital requirements, as the Committee intends[3], but instead, for many firms, will become the binding capital ratio to which they will manage. This is unwise and contrary to decades of the Committee's work on capital regulation.

Custody banks[4] gather deposit liabilities incidental to the provision of safekeeping and custody services, generally investing the proceeds of this stable funding in a high volume of low-risk assets such as government securities and central bank placements. This conservative approach not only increases custody bank resiliency, it is also dictated by the business model: custody banks must remain highly liquid and highly creditworthy to serve clients best. Unfortunately, applying the Consultation in the manner some national regulators are contemplating may penalize safe and sound banking organizations.

Avoiding the market-disrupting consequences of applying a binding leverage measure on low-risk banks will require a holistic reassessment of the SLR framework. BNY Mellon believes the Committee should reconsider and revise the supplementary leverage ratio agreed to in 2010, especially in light of the announced intentions of national regulators to impose significantly higher calibrations than those contemplated during previous consideration of the SLR. We recommend two primary adjustments to the framework:

- The SLR's denominator should exclude central bank deposits.
- The SLR's denominator should also exclude high-quality sovereign debt instruments backed by the full faith and credit of national governments.

We believe both of these adjustments are necessary and consistent with the purposes of the Consultation and will further the Committee's policy objectives of fashioning a simple and transparent leverage requirement. The Consultation's focus on denominator components represents a departure from traditional, simple, balance sheet leverage standards, and a movement towards converged capital and liquidity standards. BNY Mellon supports that convergence and believes our proposed adjustments will abet its realization. Neither adjustment will introduce new complexities to the measure, nor undercut its uniform and consistent application. Rather, they would ensure that the SLR functions as a simple backstop, as is its purpose. In addition to these fundamental concerns, BNY Mellon also recommends that the Committee permit the use of daily averages for calculating denominator components (where practicable) and further clarify the treatment of exposures arising from agent securities lending operations.[5]

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3 ¶ 2, Basel Committee, *Revised Basel III leverage ratio framework and disclosure requirements*.

4 Throughout this commentary we use the terms "custody" and "custody bank" to reference the full scope of services offered by BNY Mellon, especially our processing, clearance, and safekeeping businesses.

5 We would also direct the Committee's attention to the comments submitted by The Clearing House Association, L.L.C. and the Global Financial Markets Association. BNY Mellon endorses the views concerning the inclusion of off-balance sheet exposures relating to qualified central counterparties (**"QCCPs"**) and unconditionally cancellable commitments expressed in both letters. In particular, we recommend the Committee exclude exposures to QCCPs from the SLR's denominator and align the treatment of commitments with the credit conversion factors adopted in Basel II's standardized approach. We also concur with the position taken in association letters that Tier 1 Capital, rather than Tier 1 Common Equity, should remain the SLR's numerator due to Basel III Tier 1 Capital's robust going concern loss-absorbing nature.

This commentary is divided into four parts. Part I explains BNY Mellon's concerns with including central bank deposits in the SLR's denominator. Included within Part I are explanations of the broader systemic risk issues that we believe may result if the ratio's denominator is not adjusted to exclude central bank deposits. Part II provides our perspectives as a large clearing agent of government securities on systemic risk consequences of including high-quality sovereign instruments in the denominator. Parts I and II include, as appropriate, tailored policy solutions for the Committee's consideration. Part III addresses our concerns with the requirement to use the average of three, month-end spot measurements to calculate SLR denominator elements. Last, Part IV addresses our agent securities lending operations and the application of the framework to the provision of agent lender indemnifications.

Part I: The inclusion of central bank deposits in the ratio's denominator may impact the operations of low-risk banks and increase, rather than reduce, systemic risk.

The Consultation's formulation of the SLR departs from traditional leverage constraint principles by including in the exposure measure not only on-balance sheet assets, but also certain off-balance sheet exposures (or certain portions of certain off-balance sheet exposures). Accordingly, the Consultation's approach to the SLR's exposure method combines both leverage principles and risk-based principles. Due to this blended approach, BNY Mellon believes that it is critical that such an approach be applied consistently and logically. In other words, if the exposure measure includes off-balance sheet exposures that are nevertheless perceived to contain credit risks, then the exposure measure should exclude on-balance sheet exposures that clearly do not have credit risk.

It is axiomatic that the SLR will affect different types of global banking organizations in different ways. Indeed, it is easy to see how the Committee's proposed revisions – considered in conjunction with the original 2010 framework – will appropriately constrain the abilities of certain banking organizations with large trading operations from building-up leverage through selected off-balance sheet exposures, as they did prior to the financial crisis. But the application of the SLR to firms with safer business models may come with unintended impacts for financial markets and market participants. For these reasons, applying the same SLR framework to all global systemically important banks is inequitable and imprudent.

A. Liabilities-driven business models result in substantial central bank deposits.

BNY Mellon's business model diverges from most other global banks, because it is liabilities-driven; in other words, our balance sheet grows not through asset growth or trading activity, but rather through expanding operational client relationships that, over time, translate into increased volumes of highly stable deposits. We do not leverage our balance sheet or generate illiquid, risky assets and then attempt to derive funding strategies to support those holdings. Instead, we typically see steady flows of operational deposits coming onto our balance sheet. These flows are directly linked to the processing services we provide. Our customers maintain cash balances with BNY Mellon to facilitate their ongoing operational activities (*e.g.*, payment and settlement processing). Because of our processing businesses, we concentrate on deploying cash we receive into a high volume of low-risk, highly liquid assets that meet our clients' operational needs and risk appetites. It is the common practice of custodians to place cash arriving through deposit inflows from customers at central banks, or to otherwise invest these funds in very low-risk assets.

The client base we serve and the operating businesses in which we specialize drive our approach to asset-liability management and result in sizeable holdings of highly liquid assets. Unsurprisingly, the percentage of our risk-weighted assets to total assets is proportionally lower than that of other large banks. As of June 30, 2013, risk-weighted assets represented 32% of BNY Mellon total assets.[6] The composition of the left side of our balance sheet is also unique – again due to our custody operations. Central bank deposits and high-quality government securities account for 44% of our total assets.[7] Publicly available data indicate that BNY Mellon holds 275% more central bank deposits and high-quality government securities than the major U.S. trading and universal banks.[8] The liquidity, safety, and certainty of central bank deposits are a key cornerstone of this low-risk, highly liquid strategy.

B. Including central bank deposits in the SLR's denominator could impede the ability of highly rated, low-risk banking organizations to accept deposits during periods of systemic stress.

Firms constrained by the SLR will need to implement mitigation plans to meet the new requirements. As noted above, where a firm's binding capital constraint is a measure that is not risk-based, remediation strategies focused on reducing the quantity of highly liquid and low-risk assets could be more effective than remediation strategies focused on reducing the quantity of higher-yielding, higher-risk assets. For these reasons, requiring low-risk firms to manage business operations in the context of a binding constraint SLR could actually undermine the Committee's broader work on financial stability.

BNY Mellon is a safe and secure place to leave their money during periods of market stress. Indeed, recent historical data demonstrate the significant deposit inflows we receive during episodes of market tumult. For example, during the second half of 2008, the Dow Jones Industrial Average decreased by approximately 31%. During this same period, our average deposits increased by approximately 25% (or approximately $29 billion). The impact of this deposit increase resulted in a reduction of our traditional (balance-sheet asset based) leverage ratio by 90 basis points, or approximately 14%, at December 31, 2008. As these liabilities come onto our balance sheet, we of course need to deploy them into corresponding assets. We typically place inflows during periods of stress at central banks. This paradigm may be untenable in an environment where an unduly punitive SLR serves as the binding constraint.

Improperly crafted capital standards should not disrupt that natural flow of funds to banks or divert funds to the less-regulated shadow banking system. At the least, we strongly believe the Committee should address this by excluding from the SLR's denominator deposits maintained at central banks.

BNY Mellon also believes that the Consultation does not sufficiently recognize the dynamic yet foreseeable impacts of the proposed treatment of repo transactions and securities finance transactions. Both are driving – or are likely to drive – a disproportionate amount of cash onto custodian balance sheets in the form of deposits. The SLR's treatment of repo and other securities finance transactions will limit the available supply of investible assets on the short-end of the yield curve, which will result in market participants holding excess cash and looking for a safe bank with which to place it. This is a further reason for the Committee to exclude from the SLR's denominator deposits maintained at central banks.

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6 BNY Mellon's FR Y-9C Report (June 30, 2013).

7 Id; BNY Mellon 10-Q filing (June 30, 2013).

8 Data compiled from Call Reports and FR Y-9C filings.

C. Banks' simultaneous reductions in central bank deposits will increase risks associated with payments activity.

As currently formulated, the SLR is likely to discourage banking organizations from holding high-quality liquid assets at levels beyond minimum liquidity requirements. If the SLR encourages financial institutions to withdraw central bank deposits in scale, the results could disrupt critical payments activity. The current operating models for most banks necessitate considerable amounts of surplus cash to avoid payments bottlenecks. Unless appropriately recalibrated, we expect that initial SLR conformance strategies – across all of the banks covered by the Basel proposal – will focus on reducing central bank deposits.

Currently, the payments system is benefitting from significant excess cash holdings linked to historically high central bank deposits. These balances exist across the system and are used by banks to reduce the risk of payment failures and to facilitate consistent and smooth payment flows. The payments system is stronger and less risky since the financial crisis. Much of this improvement is directly attributable to increased central bank deposits. For instance, today banks require far fewer Fedwire extensions to facilitate payments processing than in 2008.[9] Payment flows throughout the day are also more evenly distributed. For example, in 2007 more than 67% of payments each day were processed after 4:00 pm. Now only 26% of payments process after 4:00 pm.

The inclusion of central bank deposits in the SLR's denominator may reverse this trend, which could increase risk for all banking organizations. At least in the case of BNY Mellon, the difference between our pre-crisis and current central bank deposits is significant. From July 2007 to August 2008 our average balance at the Federal Reserve was $352 million. That average over the past two years has risen to nearly $38 billion. This change is directionally consistent with the publicly available data of the 20 largest U.S. bank holding companies. We fear that significant reductions in those balances, which are likely if the SLR is enacted in the United States with an enhanced calibration, will foreseeably result in unintended consequences to the payments system (*e.g.*, significant increases in payment failures). This is especially true as market and client expectations for instantaneous access to their funds have become the norm.

Additionally, it is foreseeable that in this environment banking organizations constrained by the SLR will have less cash available and, therefore, could require external liquidity, perhaps on an intraday basis. We believe excluding central bank deposits from the denominator is a simple and transparent means to avoid injecting unnecessary operational risk into the global payments system.

Part II: Including high-quality government securities in the SLR's denominator reduces works at cross-purposes with broader policy efforts.

As noted in Part I, the Consultation's formulation of the SLR departs from traditional leverage constraint principles by including in the exposure measure not only on-balance sheet assets, but also certain off-balance sheet exposures (or certain portions of certain off-balance sheet exposures). Again, in the context of high-quality government securities, we believe that if the SLR's exposure measure includes off-balance sheet exposures that are nevertheless

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[9] According to BNY Mellon's Global Operations payments processing data, industry-wide annual Fedwire extension requests numbered 56 in 2008. Year to date in 2013, there have only been 12.

perceived to contain credit risks, then the exposure measure should exclude on-balance sheet exposures that clearly do not have credit risk.

BNY Mellon is strongly supportive of the emerging regulatory principle that supervisors should consider capital and liquidity regulation in tandem. We believe that it is impossible to both ensure sufficient loss absorbency at global banking organizations and avoid liquidity risks absent cogent and clear links between all components of the Basel III Accord. This is especially true when one considers the premium that forthcoming quantitative liquidity requirements will place on low and no risk assets. Calibrating the SLR to place undue capital charges on low-risk assets mandated by the Basel III liquidity rules will be counterproductive and discourage prudent liquidity risk management.

Moreover, we fear that enacting the SLR without contemplating tailored treatment for appropriately high-quality sovereign instruments will not only frustrate the Committee's liquidity initiatives, it could reduce the demand for, or liquidity in, government securities. Enacting the SLR as proposed could reduce the demand for high-quality sovereign debt, and increase associated volatility. We do not believe the Committee should go forward with including high-quality sovereign instruments in the SLR's denominator when it has not fully analyzed the potential costs to government borrowing of doing so.

Preserving liquidity in key government securities markets is not the only reason for the Committee to consider a limited denominator exception for qualifying sovereign instruments. Penalizing firms for holding valuable sovereign debt will also undercut the collateral reforms that the Committee, in conjunction with the Financial Stability Board and International Organization of Securities Commissioners, is pursuing. On the one hand, reform measures will mandate financial institutions seek and hold more high-quality government securities, while on the other hand firms will be punished by a blunt and binding effective capital charge for doing so.

A. As currently conceived, the SLR could undermine the Committee's efforts to reduce liquidity risk.

In many respects the SLR is fundamentally at odds with the important liquidity reform work the Committee is undertaking. In the foreseeable instances where the SLR is a firm's binding constraint, it will penalize the holding of high-quality liquid assets of the type required by the liquidity coverage ratio (the **"LCR"**). Such treatment will discourage banking organizations from holding such instruments in quantities above imposed minimums. We strongly urge the Committee to consider excluding from the SLR's denominator all Level 1 high-quality liquid assets (**"HQLAs"**), as defined by the LCR.

Excluding HQLAs from the SLR's denominator is consistent with the framework's stated objectives. To qualify as a Level 1 HQLA an asset has to be unencumbered, which eliminates its ability to be leveraged. Level I HQLAs, by virtue of their dedication to maintenance for purposes of LCR compliance, are not available to support customer lending or other activities and have no impact on equity (and, accordingly, do not contribute to a potential for increased leverage). Moreover, just as cash deposits increase in banks during crises, investors engage in system-wide "flight to quality" by investing in low-risk Level 1 HQLA rather than in riskier assets during periods of stress. These "flight to quality" assets remain liquid even in times of stress, and like cash, simply do not generate any meaningful or measurable risk of loss. When used in addition to deposits at central banks, they also serve as a sensible source of asset diversification and allow

banks to match both long- and short-term no-risk assets with their ongoing long- and short-term liabilities.

To the extent that the Committee feels it necessary to cabin any HQLA-related denominator adjustment more precisely, we offer the following three suggestions:

- It would be sensible for the Committee to limit the application of any Level 1 HQLA exclusion involving government securities to only those deemed so safe that the Organization for Economic Co-operation and Development excludes them from its country risk classification system.
- The Committee could formally link capital and liquidity regulation by providing an SLR denominator adjustment for Level 1 HQLAs limited to firms with an LCR over 100%.
- The Committee might adopt a graduated approach, under which Level 1 assets are included in the SLR denominator according to their individual liquidity risk characteristics. For example, cash would receive a liquidity weight of zero percent, and sovereign bonds would receive a low-but-not-zero liquidity weight. The calibration could correspond to the HQLA haircuts used in the LCR.[10]

Part III: The Committee should permit banking organizations to use daily or other more frequent information, where it is available, instead of month-end data for SLR averaging purposes.

The Consultation retains the Basel III Framework's requirement that the SLR be calculated using the average of three month-end spot leverage ratios over a quarter.[11] While month-end averages produce more accurate and relevant results than quarter-end spot measures, they are inferior to the use of daily or other more frequent averages. In many jurisdictions, including the United States, a number of the components of the SLR's denominator are available on a daily basis (e.g., the balance sheet elements). Indeed, the existing U.S. leverage ratio can be calculated using daily averages. Prohibiting the use of daily averages will allow firms to manipulate end-of-month data inputs and overstate the impacts of common month-end balance sheet management activity.

Many financial markets participants, particularly mutual funds, money market funds, and banking organizations, process payments, and otherwise engage in periodic yet non-standard activities at the end of each month. In addition, under the Consultation's proposal, the idiosyncratic quarter-end spot activity of firms would account for one-third of the SLR average's components. Measurements that do not account for such common balance sheet maintenance will have unduly punitive consequences for firms receiving cash inflows. These flows disproportionately end up on the balance sheets of custodians with large asset servicing operations. Absent the option to calculate components of the denominator on a daily basis, many banking organizations, particularly custodians, will be forced to use peak total asset figures that provide an inaccurate picture of more normalized asset holdings.

BNY Mellon respectfully requests that the Committee permit firms to use daily averages. To the extent that not all firms have the same reporting capabilities, we request that the

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10 *See* BCBS LCR Framework, at ¶¶ 49, 52, 54.

11 Consultative Document ¶ 6.

Committee at least allow the use of daily calculations for balance sheet data (retaining the current month-end approach for off-balance sheet denominator inputs).

Part IV: The Committee should clarify the scope of the tailored treatment provided for agent securities lending transactions to ensure it accurately captures the totality of standard lending arrangements.

The Consultation's revisions appropriately delineate between securities finance exposures arising in an agent versus a principal capacity. Exposures arising in the former context do not present the same leverage risks as those related to principal activity because an intermediary does not create any new opportunities to increase leverage. Similarly, agent activities, particularly the intermediation functions of agent securities lenders, do not create collateral chains.

Agent banks act as intermediaries in securities lending programs by facilitating loans on behalf of securities lenders to qualified borrowers. Securities are generally lent pursuant to a (i) securities lending authorization agreement between the securities lender and the agent bank, and (ii) securities borrowing agreement between the borrower and the agent bank. Under these agreements, the borrower provides collateral to the securities lender (and generally, via its agent bank) in excess of the value of the loaned securities, usually by 2% to 12% depending upon the characteristics of the loaned securities and the collateral. The loan is then marked to market daily to ensure that the collateral consistently meets the requisite excess value.

For all of these reasons, we welcome the Committee's proposal to provide tailored treatment for exposures arising out of agent lender indemnifications and guarantees. To fully achieve this policy goal, we recommend the Committee adopt the technical clarifications discussed below.

A. The provision of an agent indemnification or guaranty does not create leverage for the agent lender.

The provision of securities replacement guarantees, or indemnification for borrower defaults by agent lenders is a standard market practice. Securities lending agreements typically provide that lending clients are indemnified by the agent banks for any deficiencies in collateral in the event of a borrower default. The prevalence of the agent indemnification, and indeed its necessity, is attributable to the low-risk nature of securities lending transactions. Securities lending clients – a global cohort – all operate with risk avoidance investment strategies, typically viewing their securities lending activities as an outgrowth of other asset servicing relationships, such as custody. Because of the client's desire to ensure all transactions are low-risk, the securities replacement guarantee provides both protection to their own programs and a validation of the strength of their agent banks' risk management systems.

Beyond market strategy considerations, the agent indemnification is a legal requirement for many securities lending clients. Many lending clients are required by law to receive borrower default indemnification by an agent bank in their securities lending program under defined circumstances.[12] This is especially true in the context of ERISA plans in the United

[12] *See* Prohibited Transaction Exemption (PTE) 2006-16, Class Exemption To Permit Certain Loans of Securities by Employee Benefit Plans, 71 Fed. Reg. 63,786 (Oct. 31, 2006) (requiring in the case of securities lending transactions involving (i) certain types of foreign banks or broker-dealers as borrowers or (ii) certain types of collateral, including U.S. and non-U.S. securities, defined in the exemption as

States and many local and municipal statutes and policies.[13] The Securities and Markets Stakeholder Group of the European Securities and Markets Authority (**"ESMA"**) has also recommended that the securities lending agent be required to indemnify Exchange Traded Funds and other UCITS (Undertaking for Collective Investment in Transferable Securities) funds that loan securities.[14]

The necessity of providing agent indemnifications requires that the Committee accommodate longstanding market practices concerning the provision of agent lender indemnifications. Otherwise, BNY Mellon fears the delineation between agent and principal activities will be lost.

B. Technical clarifications.

a. Agent lender control issues.

We respectfully request that the Committee clarify that an agent bank will not be deemed to own or control cash collateral when it or an affiliate acts as an investment manager at the direction of a client. These acts are undertaken according to specific client instructions and effectuated pursuant to previously agreed upon idiosyncratic guidelines. There is no meaningful discretion for the agent lender. Beyond the customer's control throughout the cash or securities reinvestment process, it is critical to note that the reinvestment phase of a securities lending transaction – when it occurs – does not result in any collateral being leveraged by the agent bank or any rehypothecations of securities.

BNY Mellon believes that formal clarification that this core agent function does not alter the current exposure treatment is consistent with the Consultation's objectives.

b. Coverage of ancillary costs.

In addition to the provision of an indemnification or guaranty, agent lenders provide a host of additional services ancillary to their intermediation role. As just one example, agents process "substitute payments" for clients. Substitute payments are merely the outgrowth of contractual obligations between the beneficial owner of a security and a borrower designed to ensure the owner retains the economic value of securities lent. In a typical securities lending transaction, legal title and ownership of the securities is transferred from the beneficial owner to the borrower, the underlying agreement contains provisions to recreate the economic benefits of the security (*e.g.*, dividend payments) for the original owner-lender. These substitute payments are forwarded by the agent lender, on behalf of the borrower, to the owner-lender. Often these transactions occur on a provisional basis.

This standard agent function does result in a temporary and small exposure, but only for the time between the agent lender's forwarding of the funds and the borrower's processing of the dividend. The provision of substitute payments services does not allow agent lenders to increase

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"Foreign Collateral," that a U.S. bank or broker-dealer "Lending Fiduciary" indemnify the lending plan for borrower default).

13 *See, e.g.*, Texas Government Code § 825.303(b)(3) (stating that in order for a bank to be eligible to lend securities on behalf of a Texas Public Fund, the bank must "execute an indemnification agreement satisfactory in form and content to the retirement system fully indemnifying the retirement system against loss resulting from borrower default.").

14 *See* European Securities and Markets Authority, *Consultation paper: ESMA's guidelines on ETFs and other UCITS issues, ESMA/2012/44* 42, 68, 75 (Jan. 30, 2012).

their own leverage in any way. For these reasons, we ask that the Committee clarify that substitute payment services are consistent with the overall approach to agent transactions.

c. Indemnified repo.

In many securities lending transactions, the collateral pledged by the borrower is cash, which is invested in a repo transaction by the agent. Similar to the securities replacement indemnification provided to benefit the securities lender, agents often provide an indemnification in favor of the securities borrower associated with that repo transaction. This is standard market practice. This indemnification only applies to the difference between the cash received and the collateral value of the indemnified repo transaction. The transaction is procedurally identical to the underlying securities lending agreement and does not present any opportunity for additional leverage by an agent lender. Rather, in the event of a default, the agent lender is only responsible for providing the difference between the repo counterparty's collateral and the original cash.

We respectfully ask the Committee to clarify that such a transaction, which is an outgrowth of an agent-intermediated securities lending trade and functionally the same, does not result in the loss of the current exposure treatment.

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BNY Mellon appreciates the opportunity to comment on the Committee's critical work to revise the SLR. We would be happy to provide any further information regarding any of the comments contained in this commentary. Should you have any questions, please contact our Global Treasurer, Scott Freidenrich (scott.freidenrich@bnymellon.com or 212-804-2006) or our Global Chief Regulatory Counsel, Heather Koenig (heather.koenig@bnymellon.com or 212-635-7399).

Regards,

Gerald Hassell
Chairman and Chief Executive Officer