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Secretariat of the 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 Institute of International Bankers ("IIB") appreciates the opportunity to comment on the June 2013 consultative document issued by the Basel Committee on Banking Supervision (the "Committee") entitled *Revised Basel III Leverage Ratio Framework and Disclosure Requirements* (the "Consultative Document").

The IIB is a co-signatory to the letter submitted on the Consultative Document and also signed by the Global Financial Markets Association, the American Bankers Association, The Financial Services Roundtable, the Institute of International Finance and the International Swaps and Derivatives Association. This letter addresses a consideration that is not discussed in that letter: the importance of implementing the leverage ratio framework in home and host countries in a manner that promotes international consistency and harmonization and avoids the distortions introduced by the non-risk-based leverage ratio when applied at lower, or geographic, tiers of an organization. Whereas when leverage constraints are appropriately managed on a consolidated basis, the impact of the leverage ratio applied at a lower level of an organization nevertheless will vary widely given the different asset and risk profiles of subsidiaries (distortions that are not similarly reflected in risk-based measures).

Consistency and coordination between home and host country authorities in implementing the leverage ratio framework should, we would strongly submit, be a guiding principle of that process, one that is fundamental to the furtherance of the ongoing efforts by the Committee and others to achieve a harmonized international capital framework. We urge the Committee to reiterate and reinforce the primacy of this approach in connection with finalizing the leverage ratio framework. At a minimum, we encourage the Committee to agree that peers in home and host countries be subject to leverage requirements on a consistent basis.

Host country authorities should not apply the leverage ratio framework in a manner that places the local operations of internationally active financial institutions that are headquartered outside the host country (from the perspective of the host country, "foreign institutions") at a competitive disadvantage vis-à-vis those that are headquartered in the host country (from the perspective of the host country, "domestic institutions"). This result would occur, for example, where foreign institutions' local operations would be required to comply with both the host country leverage requirement and their home country requirement in a manner that could result in inconsistencies between the two such that the foreign institutions' local operations, but not their domestic institution competitors, would be required to manage to the stricter of the two requirements. Where the host country imposes the stricter requirement, the disparate impact on foreign institutions would be magnified if the host country measures their compliance on the basis of only their local operations.

More generally, it is essential that host country authorities not apply the leverage ratio framework in a manner that isolates the local operations of foreign institutions and hives off those operations from the foreign institution's operations outside the host country. Such an approach not only fails to give due account to a home country authority's consolidated oversight of its institutions' global operations, but also would create rigidities that could make financial markets in a host country more sensitive to shocks occurring inside and outside the host country. For example, implementing the leverage ratio framework in this manner could impede the appropriate allocation of resources by a foreign institution and its home country authority during periods of stress, limiting their ability to respond quickly and decisively to challenges to the strength of the institution and therefore increasing the likelihood that—all else being equal—it could fail.

If such a framework for a local host country leverage requirement were to be developed, the starting point should be an international agreement through the Basel Committee to ensure international consensus and consistency and not its unilateral imposition by a host country authority.

It is equally important to avoid the *de facto* extraterritorial application of a host country's regime to a foreign parent. Where both the home and host country authorities have adopted the leverage ratio framework, it would be contrary to the guiding principle of home-host consistency and coordination for a host country, in connection with its regulation of the local operations of a foreign institution, to apply that framework in a manner that effectively and unilaterally would subject it on a parent-consolidated basis to the host country-prescribed minimum leverage ratio beyond what would be required under its home country's requirements.[1]

[1] This prospect is presented, for example, under the enhanced/heightened prudential and "early remediation" framework proposed in the United States in connection with the implementation of Sections 165 and 166 of the Dodd-Frank Wall Street Reform and Consumer Protection Act for large foreign banking organizations.

We appreciate your consideration of our comments on the Consultative Document. Please contact the undersigned if we can be of further assistance.

Sincerely,

Sarah A. Miller
Chief Executive Officer