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Secretariat of the Basel Committee on Banking Supervision
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Dear Sir or Madam

Standard & Poor's Ratings Services ("S&P Ratings Services") welcomes the opportunity to comment on the Basel Committee on Banking Supervision's consultative document "*Revised Basel III leverage ratio framework and disclosure requirements*" ("*the consultative document*"), released on 26 June 2013.

S&P Ratings Services believes that the proposed revised Basel III minimum leverage ratio can be a useful complement to risk-weighted capital metrics in the regulatory framework, and that it can help identify outliers. We also believe that the leverage ratio would be most beneficial for the regulatory assessment of bank capital adequacy when used alongside risk-sensitive metrics.

We continue to see the shortcomings of risk-weighted regulatory metrics, in terms of complexity and lack of comparability, even as banks are implementing the new Basel III standards globally. We therefore consider that the use of more than one regulatory capital metric would enhance the analysis of bank capital adequacy as we believe it is impossible for any single metric to be risk-sensitive, simple, and comparable at the same time, and difficult for banks to arbitrage. These shortcomings in regulatory risk-weighted metrics were among the main reasons that prompted us to introduce our Risk Adjusted Capital framework five years ago, which remains the central point of our bank capital analysis.

Given the apparent "simplicity" of the proposed leverage ratio, and the consistency of its calculation between banks, in our view there is a risk that the Basel III leverage ratio could supersede regulatory risk-weighted capital metrics and become the main tool to assess banks' capitalization for a number of regulators and investors. However, the proposed leverage ratio does not ensure a consistent interpretation or reliable comparison of the ratios of institutions that have very different business models if used in isolation. The excessive reliance on any single capital metric could lead market participants to fail to notice the build-up of specific risks.

To avoid excessive reliance on the Basel III leverage ratio alone--which in our view could give a false impression of conservativeness--we consider it critical that standard-setters maintain their focus on addressing the perceived shortcomings in banks' internal models and reducing the complexity of regulatory risk-weighted calculations and the recourse to national discretion in the Basel III implementation. This would help to enhance the effectiveness of regulatory risk-sensitive metrics as a tool to analyze and compare banks' capital positions.

We regard the proposed calibration as a big step towards international consistency, and see great value in the additional disclosure recommended. We consider the use of mandatory, standard templates as a material improvement compared with existing Pillar 3 reports, which currently suffer from a lack of comparability in the nature and format of the disclosure. We believe that the standardized disclosure recommended by the Basel Committee – if applied consistently - will be sufficiently granular and easy enough to access to help inform market participants' analysis of the leverage ratio and address some of the limitations arising from its relatively simple--non-risk-sensitive--calibration.

I have attached to this letter an article that S&P Ratings Services has published in response to the consultation paper, entitled “The Basel III Leverage Ratio Is A Welcome Addition, But Not A Substitute For Risk-Weighted Capital Metrics”.

This letter and the article have been prepared by S&P Ratings Services’ Financial Institutions ratings group. I trust that the comments made therein are helpful and of relevance to the Basel Committee.

S&P Ratings Services is committed to continuing its dialogue with the Basel Committee on Banking Supervision. Should you have any questions regarding the contents of this letter or the article please contact me or my colleagues listed in the article.

Yours faithfully,

Bernard de Longevialle
Managing Director
Chair, Global Financial Institutions Regulatory Task Force