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October 27, 2015

The Honorable Janet L. Yellen
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Chair Yellen:

Thank you for your July 21 response to our February 5, 2015, letter encouraging you to recognize the exposure reducing effect of segregated customer margin in the context of the Basel III leverage ratio. We warned then that failing to recognize segregated margin could have materially adverse consequences on cleared derivatives markets, end users and market participants. We remain concerned about the irreversible market infrastructure effects the current leverage ratio calculation could have.

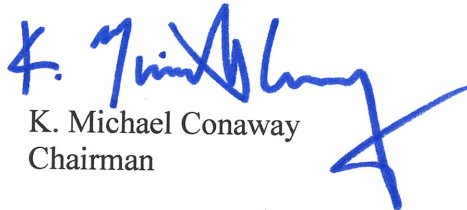
In your response, you explained that the supplementary leverage ratio (SLR) includes all assets that are reported on the balance sheet, including cash initial margin if such cash initial margin is on the banks' balance sheet due to appropriate application of the relevant accounting standards. However, in that letter you made only a passing reference to the off-balance sheet exposure where, by definition, accounting principles do not apply.

As you rightly state, the off-balance sheet calculation is a calculation of exposures, not the riskiness of those exposures. As Commodity Futures Trading Commission Chairman Timothy Massad said in a September 29 speech, "[t]he question is how do we measure the exposure arising from the clearing member's guarantee of the customer's trade?" Chairman Massad went on to emphasize that margin reduces exposure and should be considered as an offset of the off-balance sheet exposure you are concerned about.

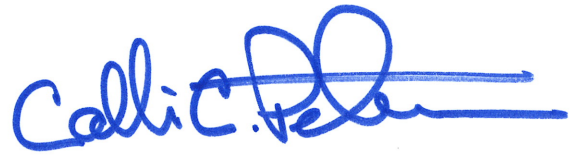
The Basel III leverage ratio already appropriately recognizes the exposure created by the clearing member's guarantee as an off-balance sheet exposure, but it then inappropriately fails to recognize the segregated liquid margin posted by the customer as reducing that off-balance sheet exposure. We ask you to recognize the exposure-reducing effect of segregated margin in the context of the off-balance sheet exposures of the Basel III leverage ratio. Alternatively, we ask that you provide an explanation for why segregated customer margin does not reduce the bank's actual off-balance sheet exposure, especially when CFTC regulations circumscribe the manner in which it may be invested.

We remain concerned that if the leverage ratio remains unchanged when the 2018 compliance period begins, a central pillar of Title VII of Dodd Frank, the mandate to centrally clear derivative trades, will be thwarted. We request a response to our concerns by November 20, 2015 and urge you to address this topic at the upcoming meeting of the Basel Advisory Committee.

Sincerely,



K. Michael Conaway
Chairman



Collin Peterson
Ranking Member

Identical Letters Sent to:

The Honorable Thomas J. Curry, Chairman, Office of the Comptroller of the Currency
The Honorable Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation

cc:

The Honorable Jacob J. Lew, Secretary, Department of the Treasury
The Honorable Timothy G. Massad, Chairman, United States Commodity Futures Trading
Commission