

THE FINANCIAL SERVICES ROUNDTABLE

Financing America's Economy



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RICHARD M. WHITING
EXECUTIVE DIRECTOR AND
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April 1, 2011

The Honorable Timothy F. Geithner
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. John G. Walsh
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
250 E Street, S.W.
Washington, D.C. 20219

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal
Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Mr. John E. Bowman
Acting Director
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552

The Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Mr. William C. Dudley
President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Re: Basel III capital rules – Overfunded pension deduction from Tier 1 capital

Ladies and Gentlemen:

The Financial Services Roundtable¹ (“The Roundtable”) appreciates the opportunity to provide its comments regarding the proposed Basel III capital and liquidity regulatory standards. The Financial Services Roundtable (the “Roundtable”) is composed of large, integrated financial services companies who finance most of the nation’s economy and are critical to its sustained growth. The Roundtable strives to be the premier executive forum for the leaders of the financial services industry and to provide a positive industry perspective on legislative and regulatory policy.

¹ The Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for \$92.7 trillion in managed assets, \$1.2 trillion in revenue, and 2.3 million jobs.

The Roundtable believes that the competitive marketplace should largely govern the delivery of products and services and that regulation should mitigate systemic risk and enhance financial stability. The Roundtable strongly contends that the paramount goal of the regulatory standards for US financial institutions should be to ensure the safety and soundness of those institutions and the US financial system as a whole. While harmonization of international regulatory standards is another worthwhile goal, we also strongly contend that the proposed standards should and must account for certain country-specific institutions, financial products and markets. These new capital and liquidity standards, in their current form, would create a competitive disadvantage for US financial services institutions relative to their international counterparts. While we recognize that these new capital and liquidity standards are the product of extensive multilateral negotiations between international financial regulatory authorities, we do not believe a major outcome of harmonization should be to damage the fundamental competitiveness of US financial services institutions. This letter has been drafted to address one important concern from our member organizations regarding the Basel III capital rules. This concern revolves around the Basel III requirement to deduct the net pension asset from Tier 1 capital.

Under the Basel III capital standards, banks would be required to deduct the net pension asset from Tier 1 capital. This requirement has several negative aspects, two of which are expounded below.

The first concern is that firms will be incented to underfund their pensions or eliminate them entirely if net pension assets are deducted from capital. The movement by corporations to eliminate their pension plans is the result of changes in accounting standards and the resultant volatility to earnings that it has created. Having to deduct the pension asset from capital will likely add to this trend, thus leaving more workers without the security of a pension. Additionally, from a public policy standpoint, underfunding pension liabilities increases the risk assumed by the government because it guarantees pension plans through the Pension Benefit Guaranty Corporation (PBGC). By incenting plan sponsors to underfund their pension obligations, the government is subjecting itself to an increasing risk of having to absorb losses to the PBGC in the event of a bank failure.

Secondly, this proposal ignores the plan sponsor's ability to monetize the asset to satisfy creditor claims. If a pension plan is over funded, the plan sponsor can cancel the plan, annuitize the benefit obligation, and release the excess plan assets for general corporate purposes. For these reasons, it is the Roundtable's opinion that the Basel III proposal to deduct pension assets from Tier 1 capital should not be implemented.

We appreciate the opportunity to express our views on this extremely important issue. We are confident that each of your agencies will take care to address specific area of concern that the Roundtable has addressed above. If you have any questions about this letter, or any of the issues raised by our comments, please do not hesitate to call me or Brad Ipema, the Roundtable's Senior Regulatory Counsel, at (202) 589-2424.

Sincerely,



Richard M. Whiting
Executive Director and General Counsel
Financial Services Roundtable