The Clearing House®

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The Honorable Daniel Tarullo
Governor
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Governor Tarullo:

In your recent remarks at the Federal Reserve's Conference on the Regulation of Systemic Risk, you called on researchers to devote more attention to investigating economies of scale and scope in financial services in the context of the current debate about bank size and risk. With this request in mind, The Clearing House is pleased to provide you with a study that we have just completed entitled *Understanding the Economics of Large Banks.*

This study represents an in-depth analysis that The Clearing House has conducted over the previous year using data from our member banks as well as publicly available information. The study draws upon individual case studies, an analysis of internal bank data, and market conduct.

Our findings conclude that, in aggregate, *the 26 largest U.S. banks provide an estimated $50 to $110 billion in unique economic value annually, with direct beneficiaries including consumers, companies and governments*. Our research also finds that (1) banks larger than $500 billion in assets account for over half of this amount, (2) the belief that marginal benefits for services performed by banks drops off above the $50-billion-asset range is *false*, and (3) the majority of the benefits detailed in this study can *only* be provided by large banks.

The benefits of large banks that we found during the course of this study include the broad scope of products and services that they provide, their economies of scale, and the innovation that they spread across the industry. The study finds the following benefits.

- Large banks offer a broad scope of products and services that smaller institutions cannot provide in an equally integrated and comprehensive manner, or sometimes even at all.

These benefits equate to an estimated $15 to $35 billion in annual direct value to customers, including companies of all sizes, retail consumers and governments.

- Large banks reduce unit costs by spreading fixed expenditures, particularly for infrastructure and technology over a larger customer base. These economies of scale provide an estimated $25 to $45 billion of annual value.
- Large banks help to spread innovations. The historical contributions of large banks have led to as much as $15 to $30 billion in annual savings, particularly benefiting retail customers and the smaller banks.
- Large banks offer critical products and services that smaller institutions are less likely to provide. Because of their scope across multiple businesses, their geographic penetration and reach and their balance-sheet size, large banks play a particularly important role in helping companies and asset managers to operate internationally and to access the capital markets. We estimate that the broader scope of large banks' products and services yields approximately $15 to $35 billion in direct value to customers annually.

We are glad to be able to share this study with you in response to your appeal for analyses on the merits of large banks. We would like to schedule a meeting with you and others at the Federal Reserve Board to discuss our methodology and findings at your convenience. Should you or your staff have any questions in the interim, please do not hesitate to contact me at (212) 613-0138; Dan McCardell, Head of Regulatory Affairs, at (212) 613-0164; or Mark Zingale, Senior Vice President and Associate General Counsel, at (212) 613-9812.

Sincerely,

Paul Saltzman
President and General Counsel
The Clearing House Association

CC:

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*Department of the Treasury*

The Honorable Neal S. Wolin
Deputy Secretary
*Department of the Treasury*

The Honorable Ben S. Bernanke
Chairman
*Board of Governors of the Federal Reserve System*

The Honorable Janet L. Yellen
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