The Clearing House Calls on the Federal Reserve to Rethink and Add Procedural Protections to Proposed Countercyclical Buffer

In letter, TCH says countercyclical capital buffer proposal is procedurally deficient and conceptually flawed

Washington D.C. – March 22, 2016 – Late yesterday, The Clearing House (TCH) wrote a letter to the Federal Reserve Board outlining procedural and conceptual concerns with its proposal for implementing a countercyclical capital buffer. In the letter, TCH calls for the proposal to be revised to ensure that any future decision to establish a countercyclical capital buffer is subject to notice-and-comment rulemaking, as required by the Administrative Procedure Act. The letter also suggests that the proposal be empirically grounded.

“The proposed countercyclical buffer... suffers from severe legal and conceptual problems, and its numerous and significant costs would greatly exceed any potential benefits,” The Clearing House writes in its letter. “In particular, the proposal would establish a framework for future determinations about the countercyclical buffer that is procedurally deficient and conceptually flawed.”

The letter suggests the proposal be revised to provide clearer, more specific and empirically anchored standards by which future decisions to establish the buffer will be made. It then goes on to detail how the proposal’s specific “trigger” for determining when to increase the countercyclical buffer— that is, circumstances where potential systemic vulnerabilities are “somewhat above normal” — is vague, inappropriate and provides no explanation of how the buffer would be calibrated.

About The Clearing House. The Clearing House is a banking association and payments company that is owned by the largest commercial banks and dates back to 1853. The Clearing House Payments Company L.L.C. owns and operates core payments system infrastructure in the United States and is currently working to modernize that infrastructure by building a new, ubiquitous, real-time payment system. The Payments Company is the only private-sector ACH and wire operator in the United States, clearing and settling nearly $2 trillion in U.S. dollar payments each day, representing half of all commercial ACH and wire
volume. Its affiliate, The Clearing House Association L.L.C., is a nonpartisan organization that engages in research, analysis, advocacy and litigation focused on financial regulation that supports a safe, sound and competitive banking system.