January 22, 2019

Via Electronic Mail

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov
Docket Nos. R-1627 & R-1628
RIN 7100-AF20 & AF21

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
comments@FDIC.gov
RIN 3064-AE96

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218
Washington, DC 20219
regs.comments@occ.treas.gov
Docket ID OCC-2018-0037
RIN 1557-AE56

Re: Proposals to Tailor the Regulatory Capital and Liquidity Requirements and Certain Enhanced Prudential Standards

Ladies and Gentlemen:

We appreciate the opportunity to comment on (i) the proposed rules issued jointly by the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") (collectively, the "Agencies") that would, among other things, revise the thresholds for applying certain aspects of the Agencies' regulatory capital and liquidity rules (the "Interagency Proposal");[1] and (ii) the Federal Reserve's parallel proposal that would revise its enhanced prudential standards regulations ("EPS") (the "EPS Proposal" and, together with the Interagency Proposal, the "Proposals").[2] We applaud the Agencies' efforts to review and, consistent with the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"), improve the tailoring of the post-crisis frameworks establishing regulatory capital standards, liquidity requirements

---

[1] *Proposed Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements*, 83 Fed. Reg. 66,024 (Dec. 21, 2018) (hereinafter *Interagency Proposal*).

[2] *Prudential Standards for Large Bank Holding Companies and Savings and Loan Holding Companies*, 83 Fed. Reg. 61,408 (Nov. 29, 2018) (hereinafter *EPS Proposal*).

and EPS. We have long supported the fundamental objectives of post-crisis reforms to, among other things, promote the resilience of banking organizations to financial and economic shocks and improve banking organizations' measurement and management of risk. However, as the Agencies recognize with the Proposals, the current application of many post-crisis reforms does not sufficiently distinguish between banking organizations based on their actual risk profile. For example, many of the current capital, liquidity and EPS requirements apply equally to regional banking organizations, like the undersigned, and larger, more complex banking organizations, such as those designated as Globally Systemically Important Banks ("G-SIBs"), despite the real differences in the risk profiles of regional banking organizations relative to G-SIBs.

The Proposals would meaningfully tailor the regulatory capital and liquidity rules and the EPS based on covered banking organizations' risk profiles and business models, rather than size alone. We strongly support the improved tailoring that the Proposals would introduce, which we believe is in line with the direction provided by Congress in EGRRCPA. We believe these modifications would appropriately tailor application of the Agencies' capital, liquidity and EPS requirements to banking organizations of different sizes and risk profiles, while ensuring that all banking organizations remain subject to appropriately stringent capital, liquidity and other prudential requirements.

In particular, we strongly support the aspects of the Proposal that would (i) tailor application of the Liquidity Coverage Ratio ("LCR") and the proposed Net Stable Funding Ratio ("NSFR") to Category III banking organizations; (ii) treat regional banking organizations within Category III, just like other regional banking organizations today, as "non-Advanced Approaches" banking organizations for purposes of the Agencies' 2017 Basel III simplification proposal (the "Simplification Proposal");[3] (iii) rationalize application of regulatory capital standards by exempting regional banking organizations within Category III, just like other regional banking organizations today, from the model-based requirements of the Advanced Approaches for determining risk-weighted assets and from the requirement to include most elements of accumulated other comprehensive income ("AOCI") in Common Equity Tier 1 capital; and (iv) eliminate the Mid-Cycle Dodd-Frank Act stress test. We also applaud the clarification under the Interagency Proposal that regional banking organizations within the proposed Category III, just like other regional banking organizations today, generally would not be considered "large, internationally active" banking organizations for purposes of international standards developed by the Basel Committee on Banking Supervision ("Basel Committee"). We encourage the Agencies to expressly acknowledge this last point to reduce uncertainty to regional banking organizations within Category III regarding the U.S. application of recently-finalized and any future Basel Committee standards.

Below, we offer several recommendations that we believe would further the purposes of the Proposals. Our most important recommendations are as follows—

- We support the risk-based threshold approach included in the Proposals for classifying banking organizations as Category II, Category III or Category IV organizations, which we

[3] *Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996*, 82 Fed. Reg. 49,984 (Oct. 27, 2017).

believe provides an appropriate and transparent methodology for these purposes. However, we believe that the proposed $75 billion risk-based thresholds, as well as the proposed $700 billion total consolidated asset threshold for Category II, should be indexed to the growth of the U.S. banking industry in order to preserve the relative relationship between these thresholds and the size of the banking industry overall.

- We believe that the tailored LCR and NSFR implemented for regional banking organizations within Category III should be modelled on the Modified LCR and proposed Modified NSFR that have already been developed for banking organizations that—like the undersigned—have simpler organizational structures and lower liquidity risk profiles than larger, more complex organizations (such as the G-SIBs). Under this approach—
  - The 70% scaling factor for cash outflows and required stable funding ("RSF"), and other features of the Modified LCR and proposed Modified NSFR that recognize the lower liquidity risk profile of regional banking organizations and encourage the maintenance of strong liquidity positions at subsidiary insured depository institutions, would apply to qualifying Category III banking organizations;
  - Qualifying Category III banking organizations would—
    - be required to meet their minimum LCR requirements on a monthly basis, consistent with the Modified LCR, but monitor their LCR ratios on a daily basis;
    - provide periodic LCR disclosures based on amounts calculated as simple averages of month-end values; and
    - submit the Federal Reserve's monthly FR 2052a Liquidity Monitoring Report on a T+10 basis, consistent with the Modified LCR.

In addition, we encourage the Agencies to promptly adopt additional changes to the rules and standards governing the Comprehensive Capital Analysis and Review ("CCAR") exercise and, consistent with EGRRCPA, the stress testing requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "DFAST" requirements). In particular, we encourage the Federal Reserve to take the following actions in time for their implementation for the 2019 CCAR/DFAST cycle: (i) eliminate the qualitative objection process for capital plans as part of the annual CCAR exercise by fully transitioning the qualitative component of CCAR into the regular supervisory review and ratings process; and (ii) eliminate the counterfactual assumptions that bank holding companies' ("BHCs") balance sheets increase during, and that BHCs maintain Base case capital actions in, the supervisory severely adverse scenario. In addition, we encourage the Agencies to eliminate the Mid-Cycle company-run DFAST stress tests and the requirements for an adverse scenario, which the Agencies recognize have limited, if any, prudential or supervisory benefit, and to make these changes effective for the 2019 DFAST cycle.

We encourage the Agencies to finalize the Proposals expeditiously after considering these and other public comments and, where appropriate, to allow for early adoption of the changes. We also urge the Agencies to promptly finalize the Simplification Proposal, with the modifications included within the Proposals. The Simplification Proposal should be finalized no later than finalization of the Proposals, as it complements the Proposals in providing a tailored, comprehensive regulatory capital framework. Our specific comments and recommendations on

the Proposals, including responses to specific questions posed by the Agencies, are discussed in detail below.

I. Risk-Based Thresholds for the Agencies' Proposed Four-Category Regulatory Framework

The Proposals would introduce a new four-category framework for distinguishing among U.S. banking organizations with at least $100 billion in total consolidated assets. Unlike the current regulatory framework, which relies almost exclusively on asset size to distinguish among banking organizations, the proposed four-category framework would incorporate risk-based thresholds based on cross-jurisdictional activity, weighted short-term wholesale funding ("wSTWF"), nonbank assets and off-balance sheet exposures to distinguish among banking organizations and tailor the application of capital, liquidity and other prudential requirements.

Under the proposed framework, the largest, most complex and systemically-important banking organizations—i.e., the U.S. G-SIBs—would be considered Category I organizations and continue to be subject to the most stringent standards. Capital, liquidity and other prudential requirements, however, would appropriately decrease in scope and stringency across the remaining categories of banking organizations (Categories II, III and IV), reflecting the fact that banking organizations across these categories are less complex and present less risk to financial stability. Importantly, though, regional banking organizations—including the undersigned—would remain subject to robust capital, liquidity and other prudential requirements, including standards established by the Dodd-Frank Act and other post-crisis reforms.

We applaud the Agencies for proposing a more risk-sensitive approach for tailoring the prudential regulatory framework in a manner consistent with EGRRCPA. Subject to the modest modifications below, we support the risk-based threshold approach included in the Proposals under which banking organizations would be classified as Category II, Category III or Category IV organizations based on a combination of risk-based measures (cross-jurisdictional activity, wSTWF, nonbank assets and off-balance sheet exposures) and asset size. We believe the proposed risk-based threshold approach provides an appropriate and transparent methodology for classifying banking organizations for these purposes. The proposed risk-based measures and thresholds (if indexed) effectively distinguish among banking organizations based on risk and business model and result in more congruent groupings of banking organizations than the current regulatory capital, liquidity and EPS frameworks.

For example, this approach provides banking organizations and the public a simple, transparent and efficient way to identify banking organizations within each risk-based category. The proposed measure of a banking organization's cross-jurisdictional activity, for example, can be readily ascertained from the Federal Reserve's FR Y-15 Banking Organization Systemic Risk Report. Accordingly, it is more transparent than the use under the current framework of a banking organization's on-balance sheet foreign exposure amount, the calculation of which is more complex and based on data reported on the FFIEC 009 Country Exposure Report, which is not available to the public. Moreover, the proposed cross-jurisdictional activity measure appropriately considers both cross-jurisdictional assets and liabilities to gauge the scope and scale of a banking organization's foreign operations, as it would capture foreign borrowing,

deposit-taking and lending activities. Should the Agencies nonetheless consider revisions to the cross-jurisdictional activity measure, such refinements should maintain a measure of both assets and liabilities, be appropriately indexed and should not reduce the proposed threshold. Ensuring that any final cross-jurisdictional activity metric reflects these features would not only account for varied business models but also provide a more comprehensive assessment of a banking organization's foreign operations than simply relying on either assets or liabilities alone.

We believe that the $75 billion thresholds for the risk-based measures that would define Categories II, III and IV, as well as the $700 billion consolidated total assets threshold for Category II, should be indexed to the amount of total assets of commercial banks, as published periodically by the Federal Reserve on the H.8 Assets and Liabilities of Commercial Banks in the United States statistical release.[4] As proposed, the thresholds are static and would, over time, improperly capture additional banking organizations, even if such organization's assets or risk-based indicators were smaller relative to the U.S. banking industry or the broader U.S. economy than firms within these categories today. Indeed, the failure to index the original asset thresholds caused those thresholds to become outdated and helped create the very lack of tailored and dynamic prudential regulations that the Proposals are intended to address. Indexing these regulatory thresholds to the recommended measure would ensure that the relative relationship between the thresholds, the share of the banking industry represented by a particular banking organization and the banking industry overall is maintained through time. Absent a dynamic link between the asset and risk-based thresholds and the U.S. banking industry as a whole, the thresholds will over time capture banking organizations that represent a smaller proportion of, and, therefore, a lesser degree of risk to, the industry and the broader economy.[5] To enhance the transparency and certainty for covered banking organizations under the regulatory framework, any indexing should be codified as part of the Agencies' final rules to ensure that the thresholds are adjusted regularly and automatically.

The Proposals also request comment on whether the existing Systemic Indicator Score approach developed by the Basel Committee or the Federal Reserve to identify or classify G-SIBs should be used for purposes of classifying banking organizations among Category II, III and IV.[6] We are concerned that use of this scoring methodology for these purposes could introduce additional uncertainty into the Proposals and their application. In this regard, commenters have expressed

---

[4] Federal Reserve*, Statistical Release H.8 - Assets and Liabilities of Commercial Banks in the United States*, *available at* https://www.federalreserve.gov/releases/h8/ (providing weekly aggregate balance sheet for a representative sample of commercial banks).

[5] The same rationale for indexing the $700 billion consolidated total assets threshold for Category II applies with equal force with respect to the $100 billion and $250 billion asset thresholds for Category IV and Category III, respectively. However, we recognize that the $100 billion and $250 billion asset thresholds are based on the thresholds established in the EGRRCPA.

[6] *See Interagency Proposal*, at 66,032. The Federal Reserve has implemented the Basel Committee's Systemic Indicator Scoring approach in a two-fold manner—a Method 1 approach, which is generally aligned with the Basel Committee's methodology, and a Method 2 approach that replaces the substitutability measure with a measure of reliance on short-term wholesale funding. *See Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies*, 80 Fed. Reg. 49,082 (Aug. 14, 2015) (hereinafter *G-SIB Surcharge Rules*).

several concerns with the G-SIB score methodology, including both the Method 1 and Method 2 methodologies, and have requested that the Basel Committee and the Federal Reserve significantly revise the G-SIB score methodologies.[7] Due to this uncertainty, we support the risk-based threshold approach proposed by the Agencies (provided the thresholds are appropriately indexed as recommended above), and do not support use of the G-SIB score methodology for classifying non-G-SIBs into Category II, III or IV for purposes of the Proposals.

Should the Agencies nevertheless determine to use the G-SIB score methodology to assign banking organizations among categories, the Federal Reserve's Method 2 approach should not be utilized. The Method 2 score is calculated using fixed measures of systemic importance, rather than annually-updated measures of systemic importance.[8] Because the Method 2 score is not a dynamic measure of a banking organization's systemic importance, it should not be used by the Agencies to tailor the application of prudential standards. If the Agencies determine to use the Method 1 score, rather than the proposed risk-based threshold approach, we believe that the appropriate calibration of the cutoff to define Category II would be a Method 1 score of 80. This calibration would ensure appropriate differentiation between Categories II and Category I, which would be defined as a Method 1 score of 130 or more.

II. Proposed Changes to the Regulatory Liquidity Framework

The Interagency Proposal recognizes the meaningful differences in the liquidity risk profiles of regional banking organizations relative to larger, more complex banking organizations and we appreciate the Agencies' efforts to right size the scope of the LCR and proposed NSFR rules for regional banking organizations within Category III. In doing so, we recommend that the Agencies model the tailored LCR and NSFR requirements for Category III organizations with less than $75 billion in wSTWF ("Qualifying Category III Banking Organizations") on the Federal Reserve's existing Modified LCR[9] and proposed Modified NSFR rules[10] for regional banking organizations. The Federal Reserve has previously determined that the Modified LCR and proposed Modified NSFR are appropriate for banking organizations that "are smaller in size,

---

[7] *See, e.g.*, Letter to Basel Committee from The Clearing House Association L.L.C., dated June 27, 2017 (commenting on the Basel Committee's 2017 proposal to revise the G-SIB assessment methodology) and Letter to Federal Reserve from The Clearing House Association L.L.C., Securities Industry and Financial Markets Association and The Financial Services Roundtable, dated April 2, 2015 (commenting on the Federal Reserve's 2015 proposal to implement the G-SIB framework in the United States).

[8] *See G-SIB Surcharge Rules*, at 49,087-49,088.

[9] 12 C.F.R. Pt. 249, Subpt. G. Under the Interagency Proposal, the Agencies' "Full" LCR rules would continue to apply to all banking organizations in Category I or Category II, as well as any Category III banking organization with $75 billion or more in wSTWF.

[10] *Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements*, 81 Fed. Reg. 35,124 (June 1, 2016) (proposing to implement the Basel Committee's NSFR framework by, among other things, establishing the Modified NSFR for banking organizations that are less complex in structure, have simpler balance sheets and pose less risk to the financial system).

less complex in structure, and less reliant on riskier forms of market funding"[11] than banking organizations subject to the Agencies' Full LCR rules.

Qualifying Category III Banking Organizations exhibit the same attributes as those banking organizations for which the Federal Reserve developed the Modified LCR. Relative to banking organizations in Categories I and II that would remain subject to the Full LCR under the Interagency Proposal, Qualifying Category III Banking Organizations are by definition smaller in size, less complex in structure, have lower liquidity risk profiles and are more similar to those banking organizations currently subject to the Modified LCR ("Modified LCR Banking Organizations"). To highlight just a few key metrics:[12]

- Qualifying Category III Banking Organizations hold a majority—60%—of their total assets in net loans and leases, like Modified LCR Banking Organizations (69%), compared to banking organizations in Categories I and II, which hold on average only 27% of their total assets in net loans and leases.

- Qualifying Category III Banking Organizations, like Modified LCR Banking Organizations, have an average ratio of total trading assets to total assets of less than 1%, whereas banking organizations in Categories I and II on average have a ratio of total trading assets to total assets of 13%. Similarly, Qualifying Category III Banking Organizations, like Modified LCR Banking Organizations, have an average ratio of total trading liabilities to total liabilities of less than 1%, whereas banking organizations in Categories I and II on average have a ratio of total trading liabilities to total liabilities of 6%.

- Qualifying Category III Banking Organizations have an average ratio of notional value of derivative contracts to total assets of only 87%, which is similar to Modified LCR Banking Organizations (53%) and many multiples lower than the average of 2,003% for banking organizations in Categories I and II.

- Qualifying Category III Banking Organizations have an average ratio of core deposits to total liabilities of 71% that is not unlike Modified LCR Banking Organizations (69%) and much higher than the average ratio for banking organizations in Categories I and II (34%).

- Qualifying Category III Banking Organizations have an average ratio of foreign deposits to total deposits of only 3%, which is similar to Modified LCR Banking Organizations (less than 1%) and significantly lower than the average for banking organizations in Categories I and II (28%).

Accordingly, it would be more appropriate for the Agencies to apply the current Modified LCR rules and proposed Modified NSFR rules to Qualifying Category III Banking Organizations,

---

[11] *Liquidity Coverage Ratio: Liquidity Risk Measurement Standards*, 79 Fed. Reg. 61,440, 61,520 (Oct. 10, 2014) (hereinafter *Final LCR Rules*).

[12] For purposes of this comparison, the data for Qualifying Category III Banking Organizations comprises data for Capital One Financial Corp, The PNC Financial Services Group, Inc. and U.S. Bancorp. All data are as of September 30, 2018.

rather than, as proposed, developing a new "reduced" LCR and NSFR framework. A new framework would add needless complexity and would run counter to the goal of regulatory simplification. The Agencies already have supervisory and interpretive experience with the current Modified LCR and proposed Modified NSFR, which include a variety of provisions that are designed to reflect the reduced complexity and liquidity risk profile of covered regional banking organizations, including:

- A 70 percent scaling factor for net cash outflow amounts (Modified LCR) and RSF (proposed Modified NSFR);

- No maturity mismatch add-on (Modified LCR);

- The ability to include high-quality liquid assets ("HQLA") and available stable funding ("ASF") at a consolidated subsidiary at up to 100 percent of the net cash outflows of the subsidiary (Modified LCR) and 100 percent of the RSF of the subsidiary (Modified NSFR);

- A requirement to meet the minimum Modified LCR ratio as of month-end (rather than daily, as under the Full LCR); and

- Periodic disclosure based on average amounts calculated as simple averages of monthly amounts over the calendar quarter.

We believe these same features should be included in any LCR and NSFR requirements made applicable to Qualifying Category III Banking Organizations. In adopting the Modified LCR and proposing the Modified NSFR, the Federal Reserve previously determined that a 70 percent scaling factor is appropriate for smaller, less complex banking organizations that are less reliant on riskier forms of market funding. The data summarized above clearly illustrate that Qualifying Category III Banking Organizations exhibit these same attributes relative to banking organizations that would remain subject to the Full LCR. Moreover, a 70 percent outflow factor for Qualifying Category III Banking Organizations would provide a more appropriate transition point between Category IV banking organizations, which would not be subject to any LCR or NSFR requirement under the Proposals, and Category I and Category II banking organizations, which would remain subject to the Full LCR and Full NSFR under the Proposals.

The business models and lower liquidity risk profiles of Qualifying Category III Banking Organizations also do not give rise to the sorts of risks that the Agencies cited in adopting the maturity mismatch add-on provision under the Full LCR.[13] Qualifying Category III Banking Organizations do not rely to a significant extent on more volatile, short-term sources of wholesale funding and, in any event, such an organization's wSTWF could not exceed $75 billion under the Proposals. As a result, the liquidity inflows and outflows of a Qualifying Category III Banking Organization are more stable and predictable than those of larger and more complex organizations. Accordingly, the liquidity risks of Qualifying Category III Banking Organizations are easier for management and supervisors to monitor and manage. These facts

[13] *Final LCR Rules*, at 61,476.

make daily compliance with minimum liquidity requirements unnecessary for Qualifying Category III Banking Organizations.

We recognize, however, that our organizations have already built the systems necessary to determine our LCR on a daily basis, as our organizations are currently required to calculate and comply with the LCR on a daily basis. As a result, we believe that it would be reasonable to require that Qualifying Category III Banking Organizations *monitor* their LCR on a daily basis, while maintaining a month-end compliance requirement. We believe this approach would facilitate robust liquidity monitoring by Qualifying Category III Banking Organizations and supervisors, while recognizing that month-end LCR compliance is more appropriate in light of the more stable funding and liquidity profile of Qualifying Category III Banking Organizations relative to larger and more complex organizations.

In addition, should the Agencies determine that it is appropriate for Qualifying Category III Banking Organizations to meet relevant LCR and NSFR standards at both the consolidated holding company level and at any insured subsidiary depository institution with more than $10 billion in assets (as is the case today), we believe it is crucial for the consolidated organization to be able to include HQLA and ASF at its subsidiaries in an amount equal to 100 percent of the net cash outflows and RSF of the subsidiary. Under the Modified LCR rules and proposed Modified NSFR rules, subsidiary HQLA and ASF may be included in the consolidated calculation at an amount up to 100 percent of the net cash outflows and RSF of the subsidiary, without adjusting for any applicable scaling factor. The Agencies specifically requested comment on whether the approach for including subsidiary HQLA and ASF permitted under the Modified LCR and Modified NSFR should be permitted under the Proposals.[14]

We believe that applying the current approach to subsidiary liquidity under the Modified LCR and proposed Modified NSFR is appropriate for Qualifying Category III Banking Organizations as it would, among other things, limit undue complexity in calculating the LCR and NSFR metrics and more appropriately reflect the liquidity resources of subsidiaries in the consolidated calculation. Moreover, allowing Qualifying Category III Banking Organizations to include eligible HQLA and ASF held at a consolidated subsidiary in the parent BHC's consolidated calculation at up to 100 percent of the subsidiary's net cash outflows or RSF (plus any amount of assets that would be available for transfer to the top-tier holding company during times of stress without restriction) would be consistent with the objectives of the regulatory liquidity framework for our organizations. In this regard, our organizations conduct the vast majority of our activities through our insured depository institution subsidiaries and, accordingly, from both a safety and soundness and financial stability perspective it makes sense to maintain the strongest liquidity levels at our insured depository institution subsidiaries.

However, limiting the amount of HQLA or ASF at our insured depository institutions that may be included in the parent BHC's consolidated calculation to only a portion of the subsidiary's gross net cash outflows or RSF would create a *disincentive* for our organizations to maintain HQLA and RSF at our insured depository institution subsidiaries beyond the minimum regulatory level. This is because the amount of any excess liquidity held at the subsidiary likely

---

[14] *See Interagency Proposal*, at 66,037.

could not be recognized in the parent's LCR or NSFR calculation, unless the liquidity was moved to the holding company. We do not believe the regulatory framework should create disincentives for our organizations to maintain the strongest liquidity levels at our insured depository institution subsidiaries, which is where our most important functions are conducted and insured deposits are held.

Qualifying Category III Banking Organizations also should be required to submit the monthly FR 2052a reports on a T+10 basis, instead of the currently-required T+2 basis. The current T+2 submission deadline creates undue operational challenges and burdens that are not outweighed by any potential supervisory benefits.[15] Submission of the data on a T+10 basis is consistent with the requirements for Modified LCR Banking Organizations today and would provide the Federal Reserve with appropriately timely information in the ordinary course.[16] Finally, Qualifying Category III Banking Organizations' periodic LCR disclosures should be based on the average month-end values, as is currently required for Modified LCR Banking Organizations. Qualifying Category III Banking Organizations currently report liquidity data, including data relevant to the LCR calculation, to the Federal Reserve on a monthly basis on the FR 2052a, and we believe the manner in which data are reported and publicly disclosed should be aligned.

We believe these recommended adjustments to the Modified LCR and proposed Modified NSFR frameworks for Qualifying Category III Banking Organizations would appropriately tailor liquidity requirements for our organizations and recognize that the liquidity risk profile of our organizations is fundamentally different that those of banking organizations in Category I and Category II.

III. Changes to the Capital Planning and Stress Testing Rules Consistent with EGRRCPA

Section 401 of EGRRCPA revised the supervisory and company-run DFAST requirements by, among other things, eliminating the requirement for an adverse scenario for the supervisory and company-run DFAST stress tests and reducing the required frequency of the company-run DFAST stress test.[17] While the Agencies have separately requested comment on proposed rules that would, among other things, eliminate the adverse scenario requirement from their respective

[15] The undersigned regional banking organizations have previously commented on the T+2 submission requirement explaining the specific operational challenges and burdens associated with that requirement. *See* Letter to Federal Reserve from 11 Regional Banking Organizations, dated February 2, 2015 (commenting on the Federal Reserve's proposed revisions to its FR 2052 Liquidity Monitoring Framework).

[16] In contrast, G-SIBs and certain other larger or more complex banking organizations are required to submit the FR 2052a report on a daily basis.

[17] Public Law 115–174, 132 Stat. 1296 (2018). Prior to the enactment of EGRRCPA, section 165 of the Dodd-Frank Act and the Federal Reserve's implementing rules required a BHC subject to enhanced prudential standards to conduct semi-annual company-run DFAST stress tests, i.e., an annual company-run DFAST stress test (conducted concurrently with the Federal Reserve's CCAR exercise and supervisory DFAST stress test) and a mid-cycle company-run DFAST stress test.

DFAST rules, it is unclear when these changes would become effective.[18] Likewise, the EPS Proposal would eliminate the mid-cycle DFAST stress test, but not until the 2020 stress testing cycle.

The Agencies, however, have recognized that the mid-cycle DFAST exercise and "adverse" stress testing scenarios are of limited risk management and informational value.[19] Accordingly, we recommend that the Federal Reserve provide immediate relief from the Mid-Cycle DFAST requirement and that the Agencies eliminate the requirement for covered banking organizations to develop and run an adverse scenario for the current 2019 stress testing cycle. Adopting these changes now would be consistent with EGRRCPA and reduce unnecessary burden for banking organizations and supervisors. As recommended in the Bank Policy Institute's comment letter on the Proposals,[20] the Agencies could effect this change by utilizing their reservation of authority under the applicable regulations[21] to extend the deadline for the 2019 Mid-Cycle company-run DFAST and any requirement to use an adverse scenario until November 25, 2019, and eliminating those requirements through a separate rulemaking effective November 24, 2019, the 18-month anniversary of the enactment of EGRRCPA and the effective date of the statutory change.

The Federal Reserve should also act expeditiously to make other changes to the CCAR framework. Federal Reserve Vice Chairman for Supervision, Randal K. Quarles, has already noted that it would be appropriate to eliminate the qualitative capital plan assessment for all BHCs subject to the Federal Reserve's capital plan rule and CCAR exercise.[22] Consistent with these comments and the Federal Reserve's prior action to exclude certain BHCs from the qualitative assessment,[23] it would be appropriate for the Federal Reserve to now eliminate the qualitative capital plan assessment and objection framework for all BHCs or, at a minimum, Category III BHCs.

The Federal Reserve's rationale for eliminating the qualitative assessment for certain BHCs—i.e., that those firms are smaller, engage in simpler activities and are more limited in geographic

---

[18] *See, e.g.*, *Amendments to the Company-run and Supervisory Stress Test Rules*, *available at* https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20190108a1.pdf (Federal Register publication forthcoming).

[19] *EPS Proposal*, at 61,417; *see also id.* at 9.

[20] Letter to the Agencies from the Bank Policy Institute, dated January 22, 2018.

[21] *See, e.g.,* 12 C.F.R. § 252.3(b) (reserving authority for the Federal Reserve to, among other things, extend any compliance dates under Regulation YY).

[22] *See* Vice Chairman for Supervision Randal K. Quarles, *A New Chapter in Stress Testing*, Brookings Institution, Washington, D.C. (Nov. 9, 2018) ("In my view, the time has come to normalize the CCAR qualitative assessment by removing the public objection tool, and continuing to evaluate firms' stress testing practices through normal supervision.").

[23] *Amendments to Capital Plan and Stress Test Rules*, 81 Fed. Reg. 67,239 (Sept. 30, 2016) (excluding BHCs with total consolidated assets less than $250 billion, on-balance sheet foreign exposure of less than $10 billion and nonbank assets of less than $75 billion from the qualitative assessment and objection framework under the capital plan rule).

scope than other firms[24]—applies equally to Category III BHCs when compared to larger, more complex BHCs. Moreover, eliminating the qualitative assessment from CCAR for Category III BHCs at this time would be appropriate in light of the fact that the Federal Reserve's Large Financial Institution ("LFI") Rating System takes effect on February 1, 2019, for all BHCs with at least $100 billion in total consolidated assets. Eliminating the qualitative assessment from the CCAR exercise and transitioning such review to the regular supervisory process would be consistent with the transition to the new LFI Rating System, which, among other things, includes an evaluation of a BHC's capital position and planning as a core component of the supervisory rating framework.

Finally, although the Federal Reserve's stress capital buffer proposal ("SCB Proposal") remains pending,[25] we believe it would be appropriate for the Federal Reserve to implement certain changes to the supervisory assumptions underlying CCAR for the upcoming 2019 exercise. Specifically, the Federal Reserve's instructions for the CCAR exercise and related supervisory communications, rather than the Federal Reserve's capital plan rule, have historically spelled out certain supervisory assumptions underlying the Federal Reserve's analysis of BHCs' capital plans, including, among others, that BHCs would continue to make base case capital actions throughout the nine-quarter planning period (including in the supervisory severely adverse scenario) and that BHCs' balance sheets would grow through that period. The Federal Reserve's SCB Proposal indicates its intent to revisit and revise these assumptions and we believe it would be appropriate and within the Federal Reserve's authority to eliminate the supervisory capital action and balance sheet growth assumptions effective for the 2019 CCAR exercise.

IV. Other Recommendations and Considerations

A. *Aligning Board of Directors Oversight Requirements for Capital and Liquidity*

In finalizing the EPS Proposal, the Federal Reserve should revise its liquidity risk management requirements under Regulation YY to allow the responsibilities required to be performed by the full board of directors under 12 C.F.R. § 252.34(a)—including, among other things, to set a BHC's liquidity risk tolerance and approve its liquidity risk-management strategies, policies and procedures—to be fulfilled by the board of directors *or* its risk committee. The board of directors of large BHCs typically delegates primary responsibility for overseeing capital and liquidity positions and risk management activities to the risk committee of the board of directors, and the current requirement obligating the full board of directors to approve the BHC's liquidity risk tolerance and liquidity risk management strategies, policies and procedures results in unnecessary duplication of activities by the risk committee and the full board of directors. Revising Regulation YY in this manner would also better align liquidity and capital governance requirements, as the Federal Reserve's capital plan rule already permits the board of directors' risk committee to review and approve the BHC's capital plan and stress testing results.[26]

---

[24] *Id.* at 67,245.

[25] *Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules*, 83 Fed. Reg. 18,160 (April 25, 2018).

[26] *See* 12 C.F.R. § 225.8(e)(iii).

B. Technical Change to Allow AOCI Opt-Out as Proposed

As indicated above, we support the provisions of the Interagency Proposal that would permit Category III banking organizations to opt out of the requirement to include most elements of AOCI in regulatory capital. The requirement for Category III banking organizations to include AOCI—and, in particular, unrealized gains and losses on available-for-sale securities—in regulatory capital runs counter to prudential liquidity requirements and sound asset liability risk management. The current treatment creates disincentives for covered banking organizations to hold assets eligible as HQLA or highly liquid assets for liquidity risk management purposes, or to hold longer duration securities for purposes of managing the interest rate risk inherent in a banking organization's business.

We, therefore, strongly support the proposal to allow Category III banking organizations to opt out of the requirement to include AOCI in regulatory capital. The proposed text of the regulatory capital rules should, however, be revised in order to give effect to the AOCI opt-out for banking organizations that would now have that option. For example, the Agencies could revise Section __.22(b)(2)(ii) of the regulatory capital rules to allow a newly-eligible banking organization to opt out on the quarterly regulatory report filed for the first reporting period after the amendments made by the Interagency Proposal take effect.

C. Transition Period for Banking Organizations Becoming Subject to Higher Standards

The transition period under the Proposals for a banking organization moving from a lower category under the proposed framework into a higher category with generally broader and more stringent requirements should be revised to provide for a longer transition period, e.g., at least 18 months, in order to allow the banking organization adequate time to come into compliance with the additional requirements. The additional and more stringent standards would generally require the banking organization to augment existing processes and systems or develop and implement entirely new processes and systems. An 18-month period to transition into the next higher category would ensure that these processes can appropriately run their course, particularly if the transition to a higher category results from an acquisition.

D. Finalize the Simplification Proposal Expeditiously

Like the Proposals, the Simplification Proposal provides targeted, tailored reductions in regulatory burden, while still maintaining robust capital standards for all banking organizations. As noted in our comment letter on that proposal, we agree with the Agencies that these reductions would still "maintain[] safety and soundness and the quality and quantity of regulatory capital in the banking system."[27] The enhanced tailoring that the Proposals would

[27] Letter to the Agencies from the undersigned banking organizations, dated December 17, 2017 (quoting the Simplification Proposal at 49,994).

accomplish is consistent in principle with the tailoring that the Simplification Proposal would provide. Accordingly, we urge the Agencies' to finalize all three proposals expeditiously.

E. Tailoring the Single-Counterparty Credit Limit Reporting Requirements

Consistent with EGRRCPA and the EPS Proposal, we recommend that the Federal Reserve review its rules implementing the Dodd-Frank Act single-counterparty credit limit ("SCCL") and the corresponding regulatory reporting requirements as they apply to Category III BHCs to further tailor these requirements. SCCL tailoring is especially appropriate for the proposed FR 2590 quarterly reporting requirement currently under consideration by the Federal Reserve.[28] Although EGRRCPA requires Category III BHCs with at least $250 billion in total consolidated assets to be subject to an SCCL, the statute does not mandate the proposed granular reporting requirements for an institution's top 50 counterparties. The Federal Reserve's SCCL rules require only that a covered institution "report its compliance to the Federal Reserve," yet most aspects of the proposed detailed reporting form FR 2590 implementing that rule are not germane or are not necessary to demonstrate compliance with the SCCL's required counterparty limit of 25% of Tier 1 capital for Category III BHCs. For example, the 20th largest counterparty of a Category III BHC likely would have a net credit exposure that is a small fraction of that limit, and such an exposure would not present any systemic risk to the U.S. financial system.

The proposed SCCL reporting requirements align with the Basel Committee's Large Exposures Framework ("Basel LEF"), which by its terms applies only to "large and internationally active banks."[29] However, the Proposals clearly indicate that the Agencies have determined that Category III banking organizations generally would not be deemed "internationally active" for purposes of aligning U.S. prudential requirements with standards developed by the Basel Committee.[30] Consistency with this determination would, therefore, dictate that the Federal Reserve similarly tailor the SCCL reporting requirement by either relying on the supervisory process to monitor SCCL compliance by Category III BHCs or by restricting reporting only to the information necessary to demonstrate compliance with the concentration limit.

If the Federal Reserve determines to retain the proposed SCCL reporting requirement for Category III BHCs, then it should require Category III BHCs to report quarterly only on their top 10 counterparties, exclusive of exempt counterparties. In addition, unless the net credit exposure of one of the reported counterparties exceeds 5% of the BHC's Tier 1 capital, Category III BHCs should only be required to report the gross credit exposure, aggregate credit risk mitigants and aggregate net credit exposure for those top 10 counterparties since these fields are the only ones necessary for BHCs to demonstrate compliance with the SCCL rule.

---

[28] *Proposed Agency Information Collection Activities; Comment Request*, 83 Fed. Reg. 38,303 (Aug. 6, 2018).

[29] Basel Committee, *Supervisory Framework for Measuring and Controlling Large Exposures* (Apr. 2014), ¶ 15 (hereinafter *Basel LEF*).

[30] *Interagency Proposal*, at 61,410 ("Like Category I, [Category II] would include standards that are based on standards developed by the [Basel Committee] and other standards appropriate to very large or internationally active banking organizations.").

We also believe that the Federal Reserve should provide additional tailoring to Category III institutions on certain substantive portions of the SCCL rule. EGRRCPA amended Section 165 of the Dodd-Frank Act to require that the Federal Reserve tailor rules implementing the EPS, including the SCCL.[31] Although, under the SCCL rule, Category III BHCs are not subject to the 15% limit for exposures among G-SIBs, that single difference between BHCs in Categories I and II and Category III BHCs merely tracks the Basel LEF framework and does not provide sufficient tailoring that meaningfully reflects the business models and risk profiles of Category III BHCs.[32] Accordingly, to achieve more meaningful tailoring consistent with EGRRCPA, the Federal Reserve should amend its SCCL rule to permit Category III BHCs to rely on gross rather than net credit exposure for a given counterparty to determine daily compliance with the SCCL rule unless (i) gross credit exposure to the counterparty exceeds 5% of the institution's Tier 1 capital or (ii) calculating net credit exposure for the counterparty would cause another counterparty's gross credit exposure to exceed 5% of the BHC's Tier 1 capital under the SCCL rule's risk-shifting provisions.[33]

* * *

The undersigned regional banking organizations appreciate the opportunity to comment on the Proposal and respectfully ask for consideration of the recommendations and suggestions in this letter. If you have any questions regarding the content of this letter or would like more information on our recommendations, please do not hesitate to contact any of the individuals listed in Attachment 1 to this letter.

Sincerely,

Capital One Financial Corporation
The PNC Financial Services Group, Inc.
U.S. Bancorp

---

[31] EGRRCPA § 401(a)(1)(B); Public Law 115–174, 132 Stat. 1296 (2018).

[32] *Basel LEF*, at ¶ 16.

[33] *See* 12 CFR 252.74(b)-(d) & (g).

Attachment 1

Robert Zizka
Executive Vice President – Capital Markets & Analytics
Capital One Financial Corporation
Phone: 703-720-1777
robert.zizka@capitalone.com

Randall C. King
Executive Vice President, Treasurer
The PNC Financial Services Group, Inc.
Phone: 412-762-2594
randall.king@pnc.com

John C. Stern
Executive Vice President and Treasurer
U.S. Bancorp
Phone: 612-303-4171
john.stern@usbank.com