MEMORANDUM

TO: Public File - Notice of Public Rulemaking: Proposed Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements (RIN 3064-AE96) ("Domestic Tailoring NPR")

FROM: Gregory S. Feder, Counsel, Legal Division

DATE: May 2, 2019

SUBJECT: Meeting with Representatives from Capital One, PNC, and US Bank

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On May 1, 2019, FDIC staff, along with staff of the Office of the Comptroller and the Board of Governors of the Federal Reserve System, held a meeting with representatives from Capital One, PNC, and US Bank (the "Regional Banks").

Representatives from the Regional Banks presented their views with regard to certain provisions of the Domestic Tailoring NPR, which was issued in the Federal Register of 83 FR 66024 (Dec. 21, 2018), as set forth in the attached presentation deck. The FDIC representatives who participated in the meeting were:

- Michael Spencer, Chief, Capital Markets Strategies Section, Division of Risk Management Supervision ("RMS")
- Andrew Carayiannis, Senior Policy Analyst, RMS
- Michael Maloney, Senior Policy Analyst, RMS
- Eric Schatten, Senior Policy Analyst, RMS
- Sue Dawley, Counsel, Legal Division
- Gregory Feder, Counsel, Legal Division
- Michael Phillips, Counsel, Legal Division
- Andrew Williams, Counsel, Legal Division

Representatives from the Regional Banks who participated in the meeting were:

- James Weatherly, Senior Vice President, Risk Capital and Analytics, Capital One
- Al Ciafre, Managing Vice President, Regulatory Relations, Capital One
- Elijah Alper, Director, Assistant General Counsel, Capital One
- Kieran J. Fallon, Senior Deputy General Counsel, Regulatory, Government Affairs & Enterprise Risk, PNC
- Randall King, Treasurer, PNC
- John Stern, Treasurer, US Bank
- Luke Wippler, Treasury Risk Executive, US Bank
- Jason Fincke-Bosma, Assistant General Counsel, US Bank

A PowerPoint deck presented by the Regional Banks is attached.

Agency Tailoring Proposals: Regional Bank Perspectives

Capital One
PNC
US Bank

May 1, 2019

Agenda

- **Overview**
- **Risk-Based Indicators**
- **Indexing**
- **Appropriate LCR/NSFR Framework for Category III**
- **SCCL Tailoring**
- **Other Items**
- **Appendix**

Overview

- **We strongly support the objectives of the Tailoring Proposals.[1] Fundamentally, we believe the Proposals would:**
  - Better tailor the agencies' capital, liquidity and enhanced prudential standards (EPS) to the risk profiles and business models of our organizations; and
  - Continue to ensure that our organizations remain subject to appropriately stringent capital, liquidity and other prudential standards.3
- **For example, we strongly support the aspects of the Proposals that would:**
  - Exempt Category III regional banks from the model-based Advanced Approaches for the risk-weighting of assets;
  - Treat Category III regional banks as "non-Advanced Approaches" banking organizations for purposes of the agencies' 2017 Basel III simplification proposal and the ability to "opt-out" of the inclusion of AOCI in regulatory capital; and
  - Eliminate the Mid-Cycle Dodd-Frank Act stress test (DFAST) and the "adverse" scenario in the annual DFAST exercise (for 2019 cycle, if possible).
- **We have several recommendations, discussed on the following pages, that we believe are fully consistent with the objectives of the Proposals and the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA).**
- **We urge the agencies to move expeditiously in finalizing the Proposals (subject to the comments discussed herein) and the related Basel III simplifications proposal, and make the final rules effective no later than December 31, 2019.**

[1] *Proposed changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements,* 83 Fed. Reg. 66,024 (Dec. 21, 2018); *Prudential Standards for Large Bank Holding Companies and Savings and Loan Holding Companies*, 83 Fed. Reg. 61, 408 (Nov. 29, 2018).

Risk-Based Indicators

- **We support the risk-based indicator approach included in the Proposals for identifying Category II, Category III and Category IV organizations, as illustrated in the following table.**

Category	Proposed Criteria
Category II	≥ \$700B Total Assets **OR** ≥ \$75B Cross-Jurisdictional Activity
Category III	≥ \$250B Total Assets **OR** \$100B Total Assets **AND** ≥ \$75B in Non-Bank Assets, weighted Short-Term Wholesale Funding **OR** Off-Balance Sheet Exposure
Category IV	Other firms with ≥ \$100B but < \$250B Total Assets

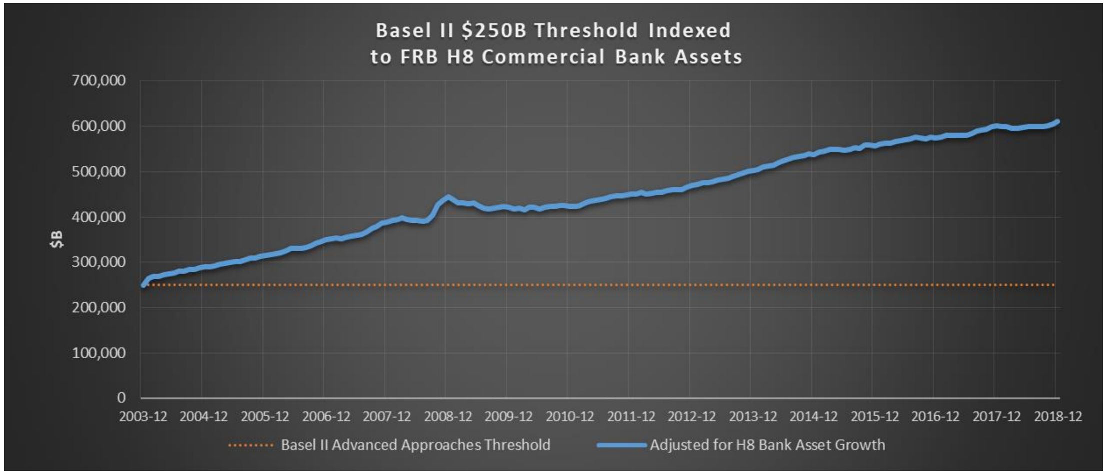
  - These indicators provide a simple and transparent way to effectively distinguish organizations based on risk and business model, consistent with the purposes of the EGRRCPA.

- **We do <u>not</u> believe that additional risk-based indicators (beyond \$75B in cross-jurisdictional activity) are necessary for the Category II threshold.[2]**

[2] See Question 4, *Resolution Plans Required* Notice of Proposed Rulemaking *(to be published in Federal Register).*

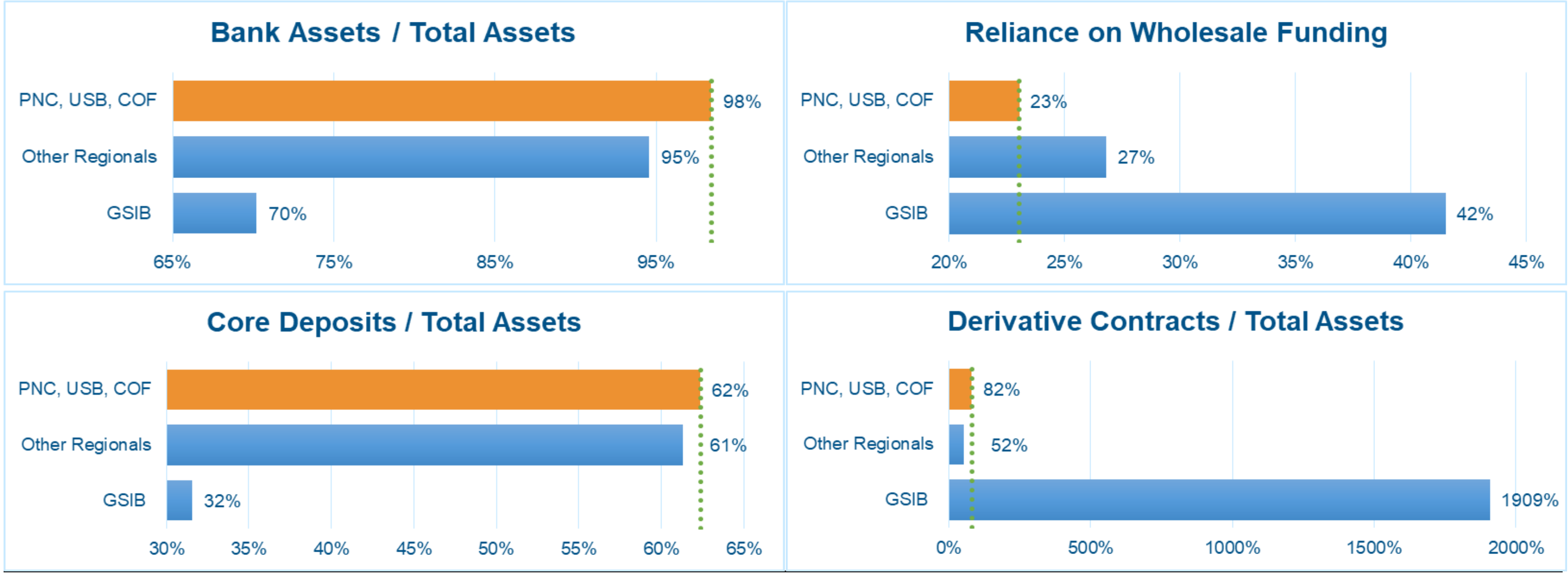
Indexing

- **We strongly believe that the $75B thresholds for the risk-based indicators, as well as the $700B asset threshold for Category II, should be indexed and regularly, and automatically, adjusted.**
  - Without indexing, these thresholds will, over time, become outdated and have unintended consequences—just as the static $250B Basel II asset threshold did.
- **We believe these amounts should be indexed to the aggregate amount of assets of commercial banks, as published in the Federal Reserve's H.8 statistical release**
  - Indexing these thresholds to this measure would ensure that the relative relationship between the thresholds and the size of a banking organization and the industry overall is maintained through time.
    - For example, indexing the agencies' $250B "advanced approaches" threshold to commercial bank assets would have resulted in our organizations remaining non-advanced approaches organizations—essentially the same result achieved by the Tailoring Proposals.
  - If an organization's assets or indicators are growing slower than the industry as a whole, then the organization's potential systemic footprint and importance to the US economy is declining.



Appropriate LCR/NSFR Framework for Category III

- **We support the agencies' decision to better "scale" the LCR and NSFR to the lower liquidity risk profiles of our organizations, each of which has <$75B in weighted short-term wholesale funding (wSTWF).**
- **We believe these scaled requirements should be modeled on the Modified LCR and proposed Modified NSFR that were specifically designed to reflect the lower risk profile of regional banks.**
- **Our organizations are functionally indistinguishable, from a liquidity risk perspective, from other regional banks subject to (or proposed to be subject to) the Modified LCR and Modified NSFR.**



Source: S&P Global; Data as of 4Q 2018; Other Regionals: STI, BBT, AXP, ALLY, FITB, CFG, RF, MTB, KEY, DFS, HBAN; GSIBs: JPM, BAC, C, WFC, GS, MS, BK, STT

Appropriate LCR/NSFR Framework for Category III (cont.)

- **Accordingly, we believe the LCR/NSFR framework for Category III organizations with <$75B in wSTWF ("Qualifying Category III organizations") should be modelled on the Modified LCR and Modified NSFR and have the following aspects:**
  - A 70% scaling factor for net cash outflows (LCR) and required stable funding (NSFR);
  - No maturity mismatch add-on (LCR);
  - A requirement to meet the minimum LCR ratio as of month-end (although daily *monitoring* could also be required); and
  - Periodic disclosures based on average amounts calculated as simple averages of monthly amounts over the calendar quarter.
- **Moreover, if the Agencies determine to apply the LCR and NSFR to Qualifying Category III organizations at both the BHC and insured depository institution level, we believe it is crucial that the consolidated organization be able to include high-quality liquid assets (HQLA) and available stable funding (ASF) at a consolidated subsidiary at up to 100% of the net cash outflows (LCR) or required stable funding (NSFR) of the subsidiary, respectively.**
  - We believe such an approach is appropriate in light of the limited liquidity risk profile of our organizations and avoids creating disincentives for our organizations to maintain HQLA and RSF at our insured depository institutions.

SCCL Tailoring

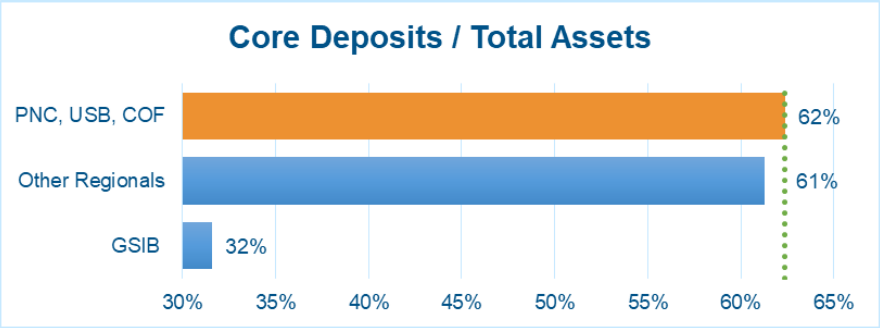
- **We believe the Federal Reserve should better tailor the Single Counterparty Credit Limit (SCCL) rule and its related reporting form (proposed FR 2590) for Category III organizations consistent with EGRRCPA and the Tailoring Proposals.**
- **The proposed granular reporting requirements exceed statutory requirements, and instead appear to track the Basel Large Exposures framework, so they should be tailored consistent with the Tailoring Proposals.**
- **For example, we believe Category III organizations should be required to report:**
  - Only on their top 10 counterparties (rather than top 50 counterparties), exclusive of exempt counterparties; and
  - Only gross credit exposure, aggregate credit risk mitigants and aggregate net credit exposure for those top 10 counterparties, unless net credit exposure exceed 5% of the BHC’s Tier 1 capital.
- **In addition, we believe the Federal Reserve should allow Category III BHCs to monitor compliance with the SCCL based on gross (rather than net) credit exposure unless:**
  - Gross credit exposure to the counterparty exceeds 5% of the BHC’s Tier 1 capital; or
  - 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’s risk-shifting provisions.

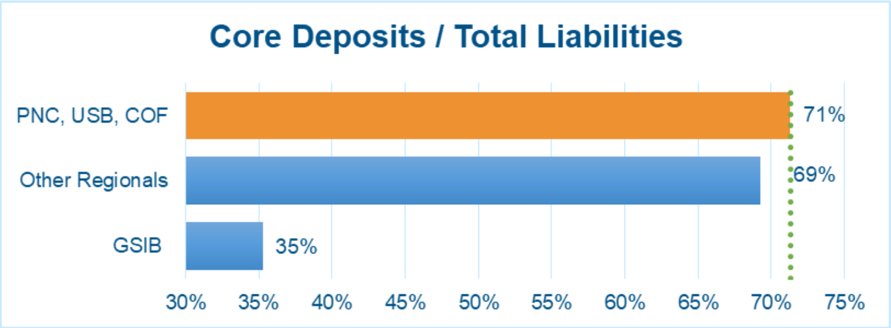
Other Items

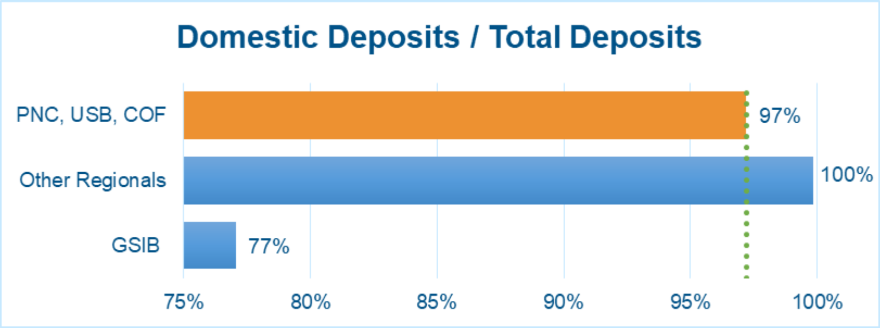
- **Our comment letter includes other technical, but important, recommendations related to:**
  - Aligning the corporate governance requirements for capital and liquidity matters;
  - The method for exercising the AOCI opt-out; and
  - The transition period for organizations that become subject to higher standards.
- **In addition, we believe the Federal Reserve should better align its supervisory expectations and guidance related to capital, capital planning, and stress testing with the Tailoring Proposals.**
  - — In particular, we believe that SR Letter 15-18 should apply only to Category I and Category II organizations and more tailored standards, similar to those outlined in SR Letter 15-19, should apply to Category III firms.
  - — Similarly, capital supervision for Category III organizations should no longer be performed under the LISCC capital supervisory program.
- **We look forward to continuing to work with the agencies as you finalize these important rulemakings.**

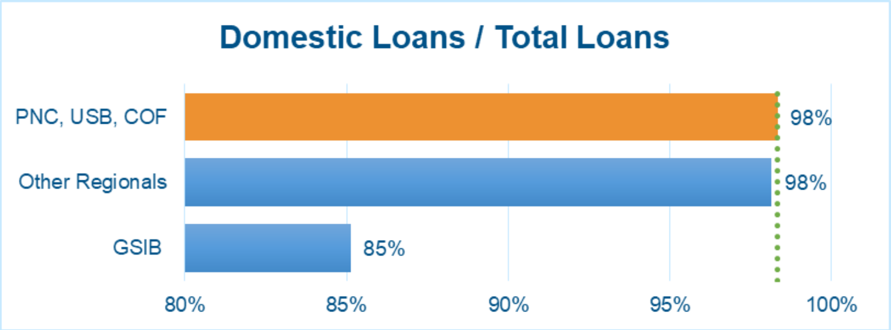
APPENDIX

PNC, USB, COF vs. Other Regionals vs. GSIBs









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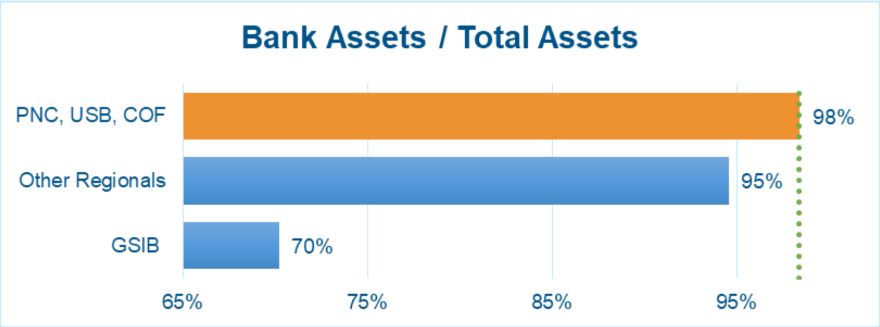
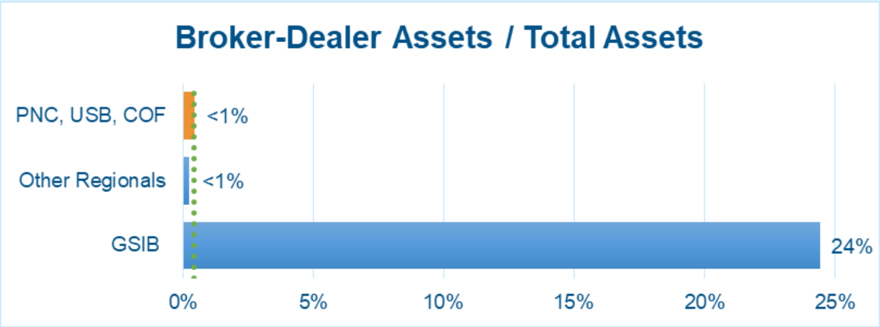
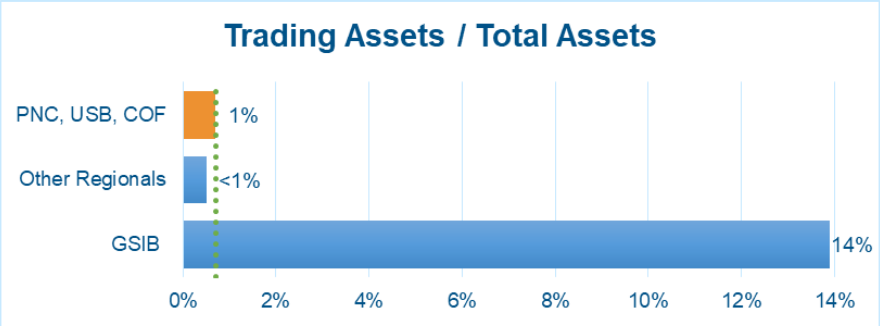
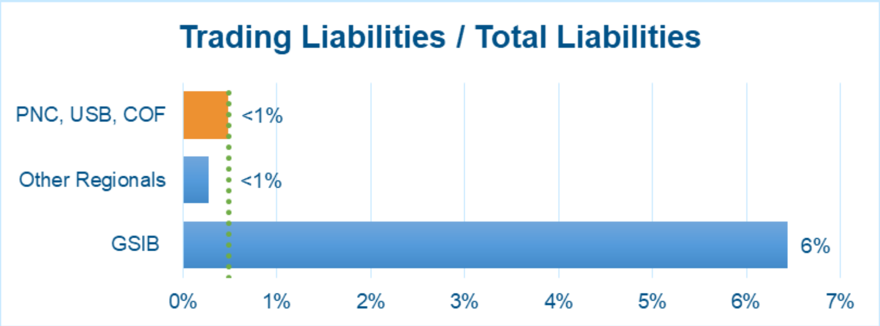
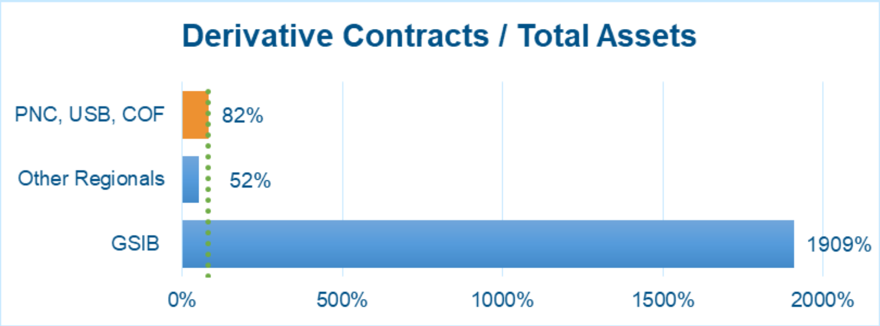
PNC, USB, COF vs. Other Regionals vs. GSIBs

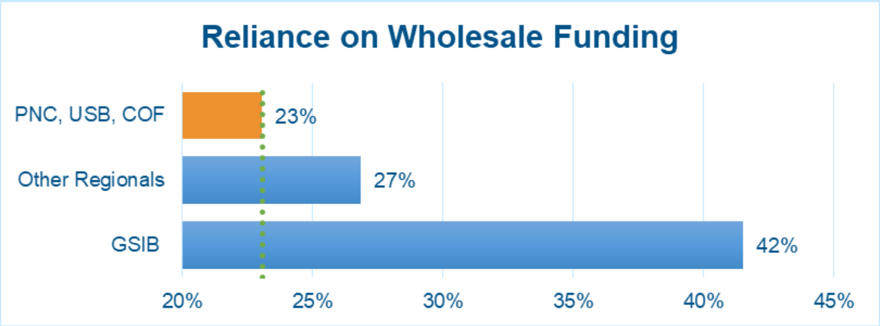




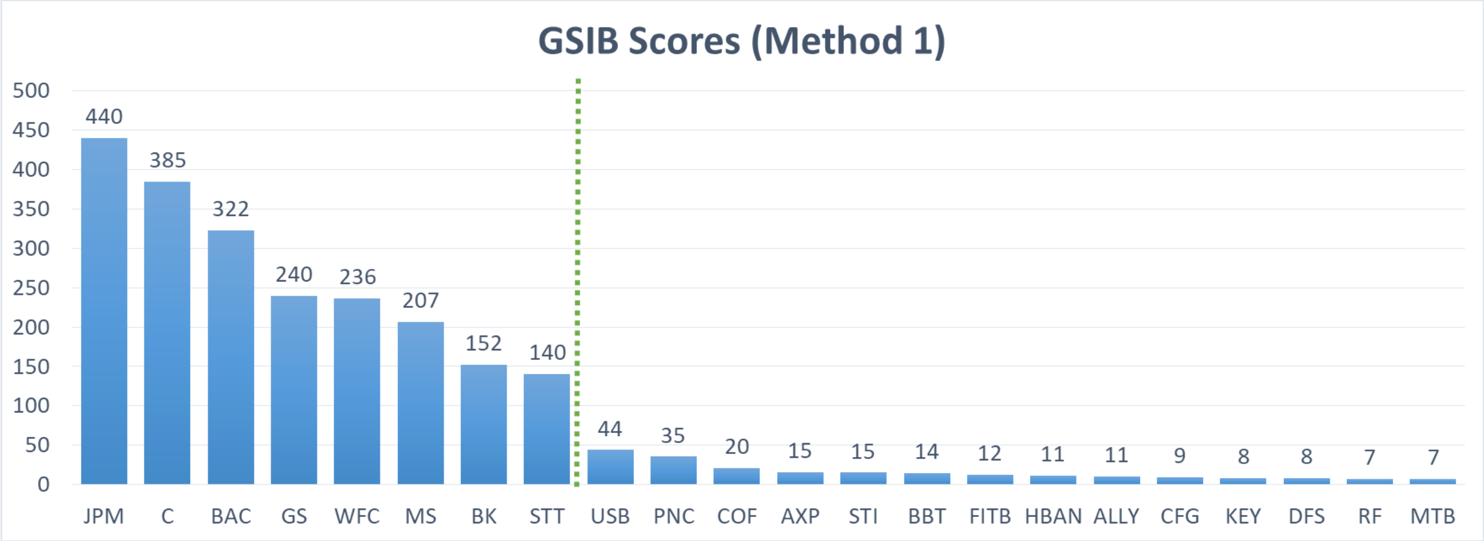








GSIB Scores


GSIB Scores (Method 1)
500
450
400
350
300
250
200
150
100
50
0
440
385
322
240
236
207
152
140
44
35
20
15
15
14
12
11
11
9
8
8
7
7
JPM
C
BAC
GS
WFC
MS
BK
STT
USB
PNC
COF
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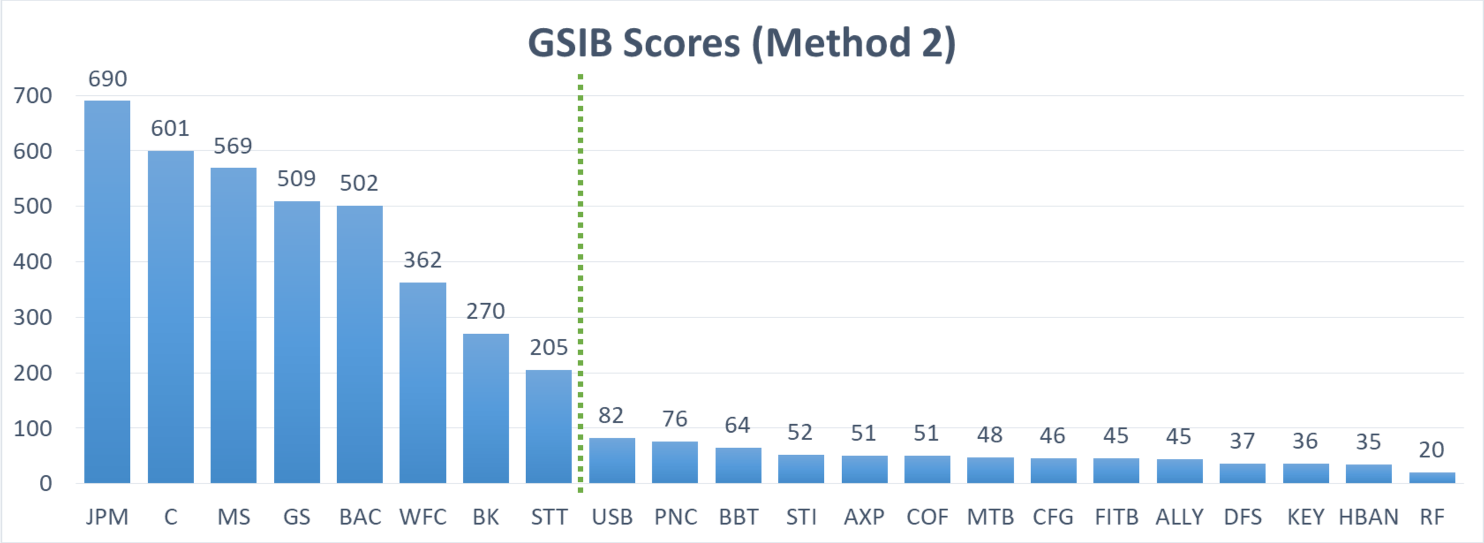
GSIB Scores (Method 2)
700
600
500
400
300
200
100
0
690
601
569
509
502
362
270
205
82
76
64
52
51
51
48
46
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