September 14, 2018

VIA ELECTRONIC SUBMISSION

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
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Re: Comment Letter on Resolution Planning Guidance for Eight Large, Complex U.S. Banking Organizations (Federal Reserve Board Docket No. OP-1614)

Ladies and Gentlemen:

The Financial Services Forum (the "Forum")[1] appreciates the opportunity to submit these comments to the Board of Governors of the Federal Reserve System (the "FRB") and the Federal Deposit Insurance Corporation (the "FDIC") on the proposed guidance for the 2019 and subsequent resolution plan submissions by the U.S. global systemically important bank holding companies ("GSIBs"), which are our member institutions. Ultimately, the ability of our member institutions to serve as a leading source of lending and investment for U.S. consumers, businesses, investors, and communities critically depends on the efficient calibration of regulation that balances

1 The Financial Services Forum is an economic policy and advocacy organization whose members are the chief executive officers of the eight largest and most diversified financial institutions headquartered in the United States. Forum member institutions are a leading source of lending and investment in the United States and serve millions of consumers, businesses, investors, and communities throughout the country. The Forum promotes policies that support savings and investment, deep and liquid capital markets, a competitive global marketplace, and a sound financial system.

effective costs and benefits. Financial regulations that do not adhere to this key principle result in an inefficient financial system that misallocates capital in a way that can have a detrimental effect on the businesses and households that the Forum member institutions serve.

Getting financial regulation right is not an academic discussion; it is critical to supporting sustained growth of the U.S. economy. As noted earlier, our member institutions are a leading source of lending and investment in the United States and, therefore, having an appropriately balanced financial regulatory framework directly affects the ability of our member institutions to continue to support growth and innovation. By way of example, in 2017, Forum member institutions made more than $4 trillion in loans to businesses and households. Further, Forum member institutions are some of the most significant intermediaries in the U.S. capital markets, through which the vast majority of funding (almost 80%) is provided to U.S. businesses. In addition, Forum member institutions employ more than 1 million people. Increasing regulatory efficiency will bolster the ability of our member institutions to serve as a leading source of support to the U.S. economy while continuing to protect U.S. financial stability. To this end, below we highlight key aspects of the progress that has been made since the financial crisis to strengthen the financial system and how, in light of that progress, the resolution planning requirements should be rationalized.

The post-crisis regulatory framework addressed the perception of "too big to fail" in two critical ways. First, it greatly enhanced the resiliency of the financial system through new enhanced prudential standards, including heightened capital, liquidity, risk management and recovery planning standards. These standards also reflect the U.S. implementation of the Basel III capital accords. For example, our member institutions now maintain more than $900 billion in tier 1 capital, an increase of more than 40 percent since 2009,[2] and nearly $2 trillion worth of highly liquid assets, an increase of more than 85 percent since 2010.[3] At the same time, reliance on short-term funding, such as repurchase agreement financing (which can be vulnerable to "runs"), has decreased by more than half to less than 15% of total assets.[4] Second, the post-crisis framework increased the resolvability of large financial institutions through, among other means, the resolution planning process, which requires these institutions to prepare for a rapid and orderly resolution in the event of material

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2 Forum, Value and Strength of America's Largest Financial Institutions (June 2018), https://www fsforum.com/wp-content/uploads/2018/06/forum_value-and-resiliency_final.pdf.

3 *Id*.

4 Randal K. Quarles, Statement Before House Comm. on Banking, Hous., and Urban Affairs (April 17, 2018), https://www federalreserve.gov/newsevents/testimony/quarles20180417a htm.

financial distress or failure. As a result of this process, our member institutions have made significant changes to simplify their corporate structures, which help facilitate the single point of entry ("SPOE") resolution strategy, another post-crisis innovation. Relatedly, these simplified corporate structures complement new "clean holding company" requirements and incorporate the use of secured support agreements, both of which significantly reduce the likelihood that third-party creditors would be able to impede an orderly resolution. In addition, our member institutions meet (or will meet when the requirements are fully in force) new total loss-absorbing capacity (TLAC) and qualified financial contract (QFC) requirements designed to help ensure an orderly resolution proceeding. Further, the Dodd-Frank Act provided the FDIC with new backstop authority to manage the resolution of large financial institutions in the event that resolution through bankruptcy would threaten financial stability.

We strongly support these improvements to resiliency and resolvability. Indeed, our member institutions continue to strengthen their balance sheets and make changes to further rationalize their business operations and structures. At the same time, with nearly a decade of regulatory changes behind us, now is the appropriate time to take stock of the improvements that have been made through implementing the post-crisis framework and to make adjustments that would foster efficiency and transparency and effectively balance the important goals of financial stability and economic growth, innovation, and job creation. Said differently, the process of implementing the various requirements noted above was a significant undertaking, which required material effort by our member institutions and the agencies. With that initial process behind us, now is a good time to evaluate how to make the ongoing framework more efficient and operate in a sustainable, steady-state manner.

To that end, we believe adjustments are warranted to the resolution planning framework. Indeed, we particularly appreciate the agencies' decision to seek comment on resolution planning guidance applicable to our member institutions. After six years of developing detailed resolution plans, making meaningful changes to facilitate an orderly resolution, and complying with corresponding regulatory requirements designed to increase resolvability, our member institutions appreciate the opportunity to offer recommendations to increase the efficiency of resolution planning based on their experience since these requirements were adopted. We agree with former FRB Governor Tarullo that "…the novelty of many of the forms of regulations adopted by financial regulators, either in implementing the Dodd-Frank Act or under existing authorities, almost assures that some recalibration and reconsiderations will be warranted on the basis of experience."[5] Resolution planning falls into this category and we welcome the opportunity to provide these recommendations.

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[5] Daniel K Tarullo, Departing Thoughts, Speech Before The Woodrow Wilson School (Apr. 4, 2017).

Specifically, we urge the FRB and FDIC to make the following adjustments to the existing resolution planning framework.

- The agencies should formally acknowledge that the SPOE strategy is the most reliable and effective way to resolve a GSIB in an orderly manner. FRB officials already have acknowledged the benefits of SPOE,[6] however, SPOE should formally be acknowledged by the agencies as the preferred strategy. With such an acknowledgment, the resolution planning framework should be premised on a SPOE strategy for all large financial institutions. Further, the resolution planning process could then focus on any targeted issues that may be necessary to address to prepare for an SPOE resolution. This suggestion is exemplary of a way to move from the material work that has been done over the last several years to an ongoing and sustainable steady-state process that benefits from the improvements and learning that our member institutions and the agencies have collectively achieved.

- The FRB and FDIC should formalize a two-year submission cycle for holding company resolution plans in their regulations, a proposal endorsed by FRB and FDIC officials more than one year ago.[7] This change would codify the agencies' current practice, increase efficiency, reduce uncertainty with respect to the resolution planning process and minimize the resources required to meet documentation requirements associated with each submission. As noted, since the financial crisis our member institutions have already developed detailed resolution plans through an iterative process with the agencies, made meaningful changes to facilitate an orderly resolution, and implemented an extensive array of regulatory requirements designed to increase resolvability. As a result, annual submissions do not provide any material incremental information each year. Accordingly, maintaining the annual reporting obligations reflected in the agencies' regulations would continue to impose an unnecessary burden on our member institutions, as well as the agencies, without a corresponding benefit.

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6 Testimony of Daniel K. Tarullo Before the H. Comm. on Banking, Housing and Urban Affairs (July 11, 2013) (describing the benefits of the SPOE strategy, including ensuring that critical operating subsidiaries of the failed firm will remain operating in the ordinary course of business and focusing losses on the shareholders of the parent holding company of the failed firm).

7 *See* Jerome H. Powell, Statement Before House Comm. on Banking, Hous., and Urban Affairs (June 22, 2017) ("We believe it is worthwhile to consider extending the cycle for living will submissions from annual to once every two years"), https://www federalreserve.gov/newsevents/testimony/powell20170622a htm; Martin J. Gruenberg, Statement Before House Comm. on Banking, Hous., and Urban Affairs (June 22, 2017) ("We believe it is worthwhile to consider extending the cycle for living will submissions from annual to once every two year"), https://www fdic.gov/news/news/speeches/spjun2217 html.

- The FDIC should eliminate its separate requirement for insured depository institution ("IDI") plans for firms that have adopted an SPOE strategy, or, at a minimum, permanently adjust the requirement to be based on a two-year submission cycle. Although we appreciate that the FDIC recently extended the filing date to July 1, 2020 for the next round of IDI plan submissions, the uncertainty that arises from lack of a permanent change to the filing requirement should be eliminated. More generally, we believe the underlying assumption of IDI plans – the failure of the IDI – runs contrary to an SPOE strategy where all material subsidiaries are recapitalized and continue to operate while the parent holding company enters resolution proceedings.

- Importantly, the agencies should avoid using the resolution planning process as a means through which to impose heightened capital and liquidity standards. As mentioned earlier, our member institutions have significantly enhanced their resiliency through new enhanced prudential standards, including heightened capital and liquidity standards and implementation of the Basel III standards. In addition, firms have pre-positioned capital and liquidity at, and entered into secured support agreements with, material subsidiaries, so that these subsidiaries are able to function without disruption even during a resolution. Any proposed capital or liquidity standards should be published for public notice and comment, rather than being adopted through guidance or the supervisory process. The public comment process is essential to avoiding unintended consequences and ensuring a level playing field in the United States and internationally.

- Further, the agencies ask whether all applicable resolution planning guidance should be consolidated. We support this approach. The current paradigm of having various sources of guidance and frequently asked questions outstanding can create confusion as to what guidance is applicable. Therefore, we recommend that the agencies consolidate and streamline all guidance to align to the vulnerabilities identified in the proposed guidance, make explicit that prior guidance has been rescinded, and be clear as to which aspects of the consolidated guidance apply to specific firms.

The adjustments suggested above would enable the agencies to achieve their policy objectives, without imposing an unnecessary burden on the Forum's member institutions.[8] In light of the progress that has been made to strengthen the financial system and the resiliency and resolvability of our member institutions, these

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[8] *See* Randal K. Quarles, Early Observations on Improving the Effectiveness of Post-Crisis Regulation, Speech Before Amer. Bar Ass'n Banking Law Comm. (Jan. 19, 2018) (noting that "if we have a choice between two methods of equal effectiveness in achieving a goal, we should strive to choose the one that is less burdensome for both the system and the regulators").

adjustments are warranted and appropriate to strike the right balance between financial stability and economic growth.

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Thank you for considering these comments. Please feel free to contact the undersigned (KFromer@fsforum.com) with any questions.

Respectfully submitted,

[redacted]

Kevin Fromer
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The Financial Services Forum