July 13, 2018

Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, D.C. 20551
Attention: Ann E. Misback, Secretary

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20249
Attention: Robert E. Feldman, Executive Secretary

Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, D.C. 20219
Attention: Legislative and Regulatory Activities Division

RE: Regulatory Capital Rules: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rules and Conforming Amendments to Other Regulations (FRB Docket No. R–1605 and RIN 7100 AF–04; FDIC RIN 3064–AE74; and Docket ID OCC–2018–0009 and RIN1557–AE32)

Ladies and Gentlemen:

We appreciate the opportunity to respond to the proposed rules (the "Proposal")[1] issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC"), and the Office of the Comptroller of the Currency ("OCC") (collectively, the "Agencies") regarding the current expected credit loss methodology ("CECL"),[2] their capital rules and their Dodd-Frank Act Stress Testing ("DFAST") rules. CECL will replace the existing incurred-loss approach for establishing credit loss provisions and allowances under U.S. generally accepted accounting principles ("GAAP") in January 2020.

The undersigned institutions are regional banking organizations with total consolidated assets of between $87 billion and $221 billion, as of March 31, 2018. Our institutions are traditional banking organizations, focused on domestic business activities, whose sizes are modest in relation to both the U.S. banking sector and U.S. economic activity.

We support the Agencies' intent to mitigate the day-one adverse capital impact of CECL. Our institutions also support delaying the implementation of CECL into the Comprehensive Capital Analysis and Review

1 OCC, Federal Reserve and FDIC, Regulatory Capital Rules: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rules and Conforming Amendments to Other Regulations 83 Fed. Reg. 22312 (May 14, 2018).

2 FASB, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326) ASU No. 2016-13* (June 2016), *available at* https://asc.fasb.org/imageRoot/39/84156639.pdf.

("CCAR") until after the 2019 stress test cycle. Absent the Federal Reserve taking action to exempt banks from DFAST and CCAR, we request that the implementation of CECL into stress testing be delayed until at least 2021. CECL represents a significant change in the determination of the allowance for loan and lease losses ("ALLL"). Under the current accounting standards, banks are expected to maintain an ALLL equivalent to incurred loan losses that are probable and reasonably estimable. In contrast, the CECL standard would require banks to maintain an allowance for the estimated credit losses associated with its loans over their contractual life adjusted for prepayments, which for certain types of loans may extend for decades. This change in accounting standards may require many banks to hold a larger allowance against their loan portfolios, despite no change to the underlying risk characteristics of these loans or their potential future credit losses. Effectively, banks may be required to hold more capital under CECL to offset the same credit risk.

The purpose of this letter is to focus on several aspects of the Proposal that are particularly problematic and will unnecessarily drive capital levels higher for regional banking organizations. We recommend consideration of alternative approaches to achieve the Agencies' regulatory objectives. As discussed in detail below, our most important recommendations are that the Agencies:

- Compensate for the continued adverse effects of CECL on regulatory capital and thus banks' willingness to lend, particularly in times of economic stress; and

- Delay the inclusion of CECL into CCAR until at least 2021 to address implementation issues and to allow for more time to consider alternative approaches.

Incorporation of CECL in Regulatory Capital

The proposed regulatory capital treatment of the ALLL post-CECL is unchanged from the present approach, and does not reflect the effective increase in capital requirements under CECL. The ALLL would remain includable in Tier 2 capital rather than Common Equity Tier 1 ("CET1") capital, and would still be subject to a limit of 1.25% of risk weighted assets.

The regulatory minimum CET1 capital requirements are meant to ensure that banks have sufficient capital to sustain operations in times of stress considering all of the different types of risks to which they are exposed, including credit, operational, and other forms of risk. By excluding the ALLL from CET1 capital, the Proposal effectively requires firms to hold capital to offset credit risk not only in their allowance for credit losses (which would reflect an estimate of lifetime credit risk) but also in CET1 capital.

The proposed transition approach to phase in the "day-one adverse regulatory capital effects of CECL adoption over a three-year period"[3] does not provide adequate relief. The transition approach fails to recognize incremental volatility in earnings and capital driven by subsequent changes to economic conditions. Upon implementation, banks will immediately make capital allocation decisions based upon impact and transition relief will not preempt such decisions. For instance, CECL may create incentives for banks to increase pricing and/or shorten maturities, reducing credit availability in the economy, which may be particularly impactful for residential mortgage and small business lending. Further, CECL may

[3] *Proposal*, page 15

increase incentives to sell mortgages to Government Sponsored Enterprises ("GSEs"); the resulting risk shift could adversely impact U.S. housing markets. Implementation of CECL will likely drive significant changes in the price, availability, and/or structure of long term credit in the United States. Therefore, a one-time transition period is not sufficient.

We recommend the following alternatives for the Agencies' consideration:

- Create an ongoing CET1 adjustment for CECL reserves that exceed a fixed time horizon (e.g., one year).

- Significantly reduce risk weighting assigned to assets and/or alter minimum capital requirements to achieve capital neutrality, giving appropriate consideration to the differences between incurred and expected losses.

Tier 2 capital relief is not sufficient due to the significantly higher cost of common equity; accordingly, consideration should be given to including the ALLL in CET1. CET1 and Tier 1 capital are binding constraints for banks' capital conservation buffers. In addition, the limit on the amount of the allowance that may be included as capital should be eliminated, acknowledging that the full amount of the ALLL provides true loss absorption capacity on a going-concern basis.

Incorporation of CECL in CCAR

Our institutions support the Agencies' decision to exclude CECL in the 2019 stress test. We respectfully request a further delay to address implementation issues and to consider a simple capital neutral approach to include CECL in stress testing.

Most regional banks (or SR15-19 banks) will be adopting the CECL framework on January 1, 2020 and will report on the actuals for the first time in mid-April 2020 at the earliest. As the CCAR submission is typically due on April 5, CCAR 2020 would be submitted before the first required public disclosure of CECL results in the first quarter of 2020. Delaying the inclusion of CECL into CCAR could help reduce uncertainty related to the introduction of new processes, assumptions, and limitations in the stress test results and stress capital buffer ("SCB").

In addition, there is significant operational complexity and uncertainty involved in concurrently implementing CECL into accounting and CCAR reporting in the first quarter of 2020. This will potentially create both operational and governance challenges at the participating institutions.

The incorporation of CECL into CCAR must strike an appropriate balance between operational simplicity, transparency, and the avoidance of unintended consequences. Therefore, we suggest a simple approach to implement CECL into the stress testing process, which leverages banks' current processes and expected loss models.

A credible allowance estimate for CCAR purposes can be achieved by allowing banks to use their existing suite of CCAR models "as is" and stating that the ending reserve must cover a year of forward looking losses plus an adjustment for factoring in life-of-loan credit losses occurring outside the four-quarter horizon. The adjustment could use a simple methodology, such as applying a coverage ratio multiplier or the long-term average expected loss for the remaining life of the portfolio. CCAR models

create forecasts of future losses consistent with a given stress scenario. Given that the CCAR scenario incorporates severe stress, future estimates under CECL at the end of the nine-quarter stress test horizon should be at baseline levels for the foreseeable future.

The current proposal of incorporating a CECL regime into stress testing that mimics actual GAAP allowance procedures will be unwieldy. At each quarter during the stress test, the full complement of models would have to be run and either use perfect foresight (because the scenario is known), which will "front-load" all losses, or ignore knowledge of the future and predict an allowance for each of the nine quarters, which will require subjective assumptions. To further complicate the issue, institutions will likely choose to approach the implementation of CECL into stress testing in an individualized way, decreasing comparability of results across firms. In its current form, the proposal adds complexity to the process and does not provide incremental value to CCAR's principle objective of capital stress testing.

Delaying the implementation of CECL in capital planning/stress testing exercises until at least CCAR 2021 would allow both banks' internal processes and the Federal Reserve to become comfortable with the execution of CECL. [4]

If the recommendation above is not adopted (which would eliminate this concern), the potential change in projected stressed losses under a CECL framework has the potential to front-load all losses and the Stress Capital Buffer ("SCB") would be based on this lowest quarter. In this case, we recommend the SCB be based on the ending stressed capital ratio, instead of the minimum stressed capital ratio.

The undersigned thank the Agencies for the opportunity to comment on the Proposal and respectfully ask for consideration of the recommendations and suggestions in this letter. We are willing to engage with the Agencies to develop an optimal approach to implement CECL in stress testing.

Sincerely,

BB&T Corporation
BBVA Compass Bancshares, Incorporated
BMO Financial Corp
Fifth Third Bancorp
Huntington Bancshares, Incorporated
KeyCorp
M&T Bank Corporation
SunTrust Banks, Incorporated

[4]Banks that will be adopting the CECL framework on January 1, 2021 seek a similar delay of the implementation of CECL into CCAR until 2022.