

January 3, 2011

Federal Deposit Insurance Corporation (FDIC)  
Attention: Comments to Proposed Rule  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

*Delivery via e-mail to [Comments@fdic.gov](mailto:Comments@fdic.gov) and  
submitted via FDIC web site at [www.fdic.gov/regulations/laws/federal/propose.html](http://www.fdic.gov/regulations/laws/federal/propose.html)*

Re: RIN 3064-AD66  
Assessments, Assessment Base and Rates

Ladies and Gentlemen:

Silicon Valley Bank ("SVB") is pleased to submit comments in response to the FDIC's proposed amendments to the deposit insurance assessment base for insured depository institutions and revisions to the assessment system applicable to large insured depository institutions.

As noted in the discussion of proposed rules changes, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DFA") introduces significant challenges in implementing required changes that amend and redefine the assessment base used by the FDIC in calculating Deposit Insurance Fund ("DIF") assessments. As an initial matter, we want to be clear that we support the Proposed Rule here in most areas. In particular we wish to applaud the FDIC's efforts in the face of the extraordinary challenge presented by the requirement to implement changes in the assessment methodology while addressing the planned replenishment of the Designated Reserve Ratio ("DRR"), and attempting to minimize the reporting impact on insured depositories. It is a difficult task that the Proposed Rule largely gets right.

In general, we welcome changes legislated in the DFA, with respect to DIF amendment base, because the new methodology: 1) appropriately defines the assessment base on the basis of consolidated assets rather than on deposit balances alone; 2) allows for adjustments to the fee schedule to account for increased risk associated with over-concentrations in certain funding sources; and 3) addresses potential systemic risk exposure to the DIF associated with large banks and so called "highly complex institutions."

In addition to these overarching points, the Proposed Rule also:

- Correctly defines and aligns the calculation of average assets in a manner consistent with reporting requirements in schedule RC-K of the Call Report;
- Aligns the definition of average tangible equity with regulatory tier 1 capital as an adjustment to average assets in a way that rewards (through lower assessment fees) prudent capital management and is consistently applied to all institutions; and

- Does not place extraneous or undue reporting burdens on Insured Depository Institutions (“IDIs”), except in a few areas as noted and discussed below.

Although we welcome the proposed changes, in general, we believe the proposal to apply a Depository Institution Debt Adjustment or (“DIDA”) should be removed. Although the proposal indicates that this adjustment is designed specifically at minimizing potential risk to the Deposit Insurance Fund (“DIF”), we believe this adjustment is unwarranted and carries certain unintended consequences, including:

- The proposed adjustment does not increase adverse risk of exposure to the DIF;
- The proposed change unfairly penalizes prudent management of earning assets in Bank portfolios;
- Application of the adjustment could inadvertently increase the cost of issuing unsecured debt for IDIs (the very instruments that, if issued in greater proportion, minimize risk to the DIF); and
- Implementation of the proposal will increase the reporting burden for IDIs that hold unsecured debt held by other issuing IDIs.

### **Background on Silicon Valley Bank**

SVB is the bank of choice for many entrepreneurs, companies and funds in the technology, life sciences and venture capital industries. SVB is a California State Chartered bank, a member of the Federal Reserve System and the principal subsidiary of SVB Financial Group. As of September 30, 2010, SVBFG had consolidated total assets of \$14.75 billion. According to definitions outlined in the proposed rule, SVB would be classified as a “large institution” but not a “highly complex institution”. Our clients place great value on our ability to offer safe and dependable access to their operational cash and short-term cash balances and, they depend on us to act as a trusted advisor and partner by offering appropriate products and services. We back up our claim to act as a trusted advisor by managing our capital and liquidity to levels that ensure our clients remain fully confident in the sustainability of our operating business model.

### **The Proposed Rule is Generally Well Balanced and Worthy of Support**

#### **1) Calculation of Average Assets According to Call Report Schedule RC-K (Line 9)**

To accommodate the change in the assessment base from deposits to average assets, as mandated by the DFA, we agree that utilizing current reported amounts as part of recurring regulatory reporting requirements, is appropriate. For banks of all sizes, the calculation of average assets in this manner is reasonable and should not pose any material detrimental impact to reporting IDIs. Additionally, use of average assets, as calculated according to schedule RC-K is consistently applied across all reporting IDIs and should lead to greater transparency and comparability for the industry. Lastly, consistent calculation and usage of average “daily” balances for all IDIs is an enhancement to current allowable calculation methods for reporting average assets in schedule RC-K. We believe it is entirely appropriate to incorporate improvements in reporting practices (we believe use of daily average balances is an improvement) as part of the process for implementing required changes in the assessment base.

## **2) Definition of Average Tangible Capital in Alignment with Regulatory Tier 1 Capital**

We feel that meeting the requirements of the DFA with respect to the definition of average tangible capital is appropriately aligned with tier 1 capital as defined in current statutes. Referencing existing guidance for allowable capital amounts included in regulatory tier 1 capital, again, is an improvement in transparency and promotes true comparability among reporting IDIs. Limiting calculation of average tangible capital based on monthly averages should not pose significant complications in calculating amounts by reporting IDIs and allows for consistency in reporting average tier 1 capital as an adjustment against average assets to arrive at the assessment base. This method of calculation, as intended by the DFA, is a fair assessment of leverage and therefore, a fair basis by which IDIs may be assessed fees to support the overall insured banking system.

It should be noted however, that alignment of “tangible equity”, as defined under the proposed changes in the assessment base calculation, with regulatory tier 1 capital, particularly in light of pending changes to the definition under Basel III, poses some risk of producing adverse unintended consequences. Final definitive equity components for tier 1 capital under Basel III are still to be determined. Tying the FDIC assessment base to a “yet to be fully defined” metric in tier 1 capital complicates the analysis of the true impact to the insurance fund and the banking system, as a whole. That said, referencing “tangible equity” with regulatory tier 1 capital despite pending changes in Basel III, levels the playing field for all participants.

## **3) Limited reporting burden on reporting IDIs**

Exclusive of the Depository Institution Debt Adjustment (“DIDA”) discussed in the next section, we feel that the reporting requirements for IDIs under the proposed changes, are not extraneous or over-burdensome. All reporting institutions are already subject to similar reporting requirements based on guidelines outlined in regulatory Call Reports.

## **The DIDA Represents an Unwarranted Increased Fee Adjustment and Should be Deleted**

SVB does not hold unsecured debt issued by IDIs, so our suggestion to delete the DIDA is based on principle. We agree with the FDICs prior assessment that, other things being equal, greater proportions of unsecured debt issued by IDIs as a group decreases risk of adverse exposure to the DIF. However, the further assumption that risk to the DIF is not reduced if IDIs, in turn, hold unsecured debt issued by other IDIs is only true if 100% of unsecured issued debt is purchased and held by other IDIs. This is simply not the case. Although allowable and suitable for holding in bank portfolios, high quality corporate debt (much less bank issued unsecured debt) generally represents a small portion of bank investment portfolios.

Most issuing IDIs are large well-known, well-managed institutions with investment grade credit ratings. Best practices in formulating investment policies for Bank portfolios allow for some allocation of assets to investment grade corporate debt, including debt issued by banks and other financial institutions, provided prudent allocation guidelines are established and followed. Increasing assessment rates based on holdings of high quality debt instruments, in limited quantities,



is inconsistent with the indirect benefits accruing to the DIF resulting from safe and sound investment management practices.

IDIs may face an increase in the cost of issuing unsecured debt. This is due to the acknowledgement, from an investment perspective, that one potential source of demand for high quality bank debt (Bank portfolios), faces idiosyncratic obstacles to investing in unsecured debt issued by other IDIs. The idiosyncratic assessment introduces an unnecessary barrier, albeit small, to an otherwise smooth market based transaction flow and clouds transparency.

IDIs that hold unsecured debt issued by other IDIs, will be required to segregate IDI bonds from non-IDI bonds of equal quality into distinct categories for no other reason than application of the assessment adjustment. There is currently no other regulatory or SEC reporting requirement for banks to provide such information. This is contrary to the desire to minimize reasonable reporting burdens on reporting institutions. Complicating matters, currently there is no distinct common identifying feature (such as a CUSIP or ISIN number) to identify and segregate unsecured IDI issued debt instruments from other debt instruments in an automated fashion. This would undoubtedly require development of manual processes for reporting purposes with limited scope and utility.

#### **Comment Summary**

Silicon Valley Bank appreciates the opportunity to submit comments prior to final adoption of the proposed rules. We appreciate the difficulties faced by the FDIC in implementing changes in the assessment base and associated rate adjustments while, at the same time, fulfilling the objective of replenishing the DIF with minimal impact on participating depository institutions.

In general, we agree with the proposed changes in the assessment base and methods for calculating average assets and average tangible capital. However, we also urge you to remove the DIDA from the proposal as an increased fee adjustment to the assessment base for participating IDIs. We believe the Depository Institution Debt Adjustment or "DIDA" does not promote a reduction in risk to the DIF, penalizes prudent investment management practices, may result in an increase in the cost of issuing unsecured IDI debt and increases reporting burdens for IDIs that chose to hold these investments.

Thank you for the opportunity to comment on this important Proposed Rule. If you have any questions, please feel free to contact me at by e-mail at [MKruse@svb.com](mailto:MKruse@svb.com) or by phone at (408) 654-6371.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael D. Kruse". The signature is fluid and cursive, with the first name "Michael" and last name "Kruse" clearly distinguishable.

Michael D. Kruse, CFA  
Treasurer  
SVB Financial Group