BOK FINANCIAL

P. O. Box 2300

Tulsa, Oklahoma 74102-2300

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Chief Counsel's Office, Attn: Comment Processing Office of the Comptroller of the Currency 400 7th Street, SW, Suite 3E-218 Washington, DC 20219	Robert E. Feldman, Executive Secretary Federal Deposit Insurance Corporation 550 17th Street, NW Washington, DC 20249

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

Via electronic delivery – regs.comments@occ.treas.gov

Re: Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances (Docket OCC-2020-0010; FRB Docket No. R-1708)

Ladies and Gentlemen:

BOK Financial is a $47 billion full-service commercial banking organization with branches serving Oklahoma, Texas, New Mexico, Arizona, Colorado, Kansas, Missouri, and Arkansas. We appreciate the opportunity to provide comments on the Interim Final Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances (IFR).

Question 1: The agencies seek comment of the feasibility of calculating the modified AACL transitional amount, including whether there are more suitable methods for determining the amount, and rationale in support of such methods. In particular, the agencies seek comment on whether banking organizations would prefer to calculate provisions under both the CECL and incurred loss methodologies and use that difference as the basis for the transition, the operational challenges of doing so, and any concerns associated with using such an approach.

> We prefer the straightforward calculation approach that is proposed in the IFR. We do not support calculating provision under both CECL and incurred, as it would be very labor intensive, expensive, and lack objectivity.

Question 2: The agencies seek comment on the feasibility of calculating the modified CECL transitional amount, including whether there are more suitable methods for determining the amount and rationale in support of such methods.

> We applaud the intent of the Agencies to make the regulatory capital impact of near-term accounting for credit losses under CECL through the crisis roughly comparable to the regulatory capital impact under the incurred methodology. However, we believe the constant scaling multiplier of 0.25 does not achieve that objective as well as may be needed.

The IFR notes that the transition option does not directly address likely differences in timing of loss recognition under CECL and the incurred loss methodology. We believe that the differences between those methodologies occur largely from timing. And those timing differences are what will generate the economically adverse pro-cyclical effects.

As is acknowledged within the IFR, the scaling multiplier which would equate the two methodologies changes each quarter during a stress scenario. We would like to emphasize that the multiplier for the quarter or quarters where CECL and the incurred loss methodology diverge by the greatest amount is what that matters most from the perspective of industry capital strength and lending capacity. Based on modeling we performed in late 2019 to identify changes to internal capital buffers resulting from CECL, we believe that the multiplier which accomplishes the objective of equalizing CECL and incurred loss methodology in the quarter with the greatest differential is slightly greater than 0.50 on an after tax basis. This modeling assumed a severely adverse scenario, wherein the difference between the two methodologies builds quickly, and then subsides at a similar pace.

To better align the two methodologies, we recommend a scaling factor which changes over time. Beginning in the first quarter at 0.25, increasing to 0.35, 0.45 and 0.50 in the second, third, and fourth quarters respectively, then falling by 0.10 per quarter thereafter until it reaches zero in the 9th quarter. The cumulative support over the lifetime of such a revised approach would be less than what is proposed in the IFR, but more impactful to lending capacity. We believe this would better achieve the goals of equalizing the two methodologies and allowing the banking industry to more effectively support the economy.

Permanent Solution

Several years ago the Agencies established a certain level of industry-wide capital adequacy and stress resiliency with the implementation of Basel III. This level of capital adequacy has been subsequently eroded by the implementation of CECL. While the IFR addresses this issue to a material degree for the next few years, the CECL effect will outlast the Final Rule. We recommend that the agencies consider a permanent solution. The agencies may want to reevaluate the 1.25% cap on the ACL as includable Tier 2 capital on a permanent basis. Raising the cap to 1.75%, or 2.00%, would lessen the pro-cyclicality concerns surrounding CECL to a reasonable degree. This would not be a perfect solution, as CECL affects Tier 1 Common Equity. However, it would be very simple to implement, and would provide support during stress periods and then removes that support as the stress subsides.

Question 4: The agencies seek comment on whether a banking organization that adopts the five-year transition should be required to also transition the change in temporary difference DTAs related to provision expenses recognized for the first two years after CECL adoption. What are the costs associated with such a requirement? Does ignoring the effect on temporary difference DTAs related to provision expenses recognized during years one and two of the five-year transition

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period when calculating the modified CECL transition amount, relative to a banking organization that applies the incurred loss methodology raise any competitive equity concerns? Would the temporary difference DTAs related to provision expenses during years one and two of the five-year transition period be material for banking organizations and should they be reflected in the 2020 transition?

> We support handling DTAs as proposed in the IFR. However, the effect of ignoring the transition effect of temporary difference DTAs on risk-weighted assets in the quarter with the greatest disparity between CECL and incurred loss could be material in a scenario severe enough to materially erode capital buffers. If the scaling factor remains at a constant 0.25, transitioning the year one and two DTA may be worth the incremental effort.

Conclusion

Thank you for the opportunity to provide feedback. We appreciate both the importance of this revision and the challenges associated with its development. Please contact me if we can clarify or provide any additional background for our comments.

Sincerely,

[redacted]

Martin Grunst
Executive Vice President
Chief Risk Officer