ZIONS BANCORPORATION

July 13, 2018

Via Electronic Submission

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

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

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

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 (Docket ID OCC–2018–0009 and RIN1557–AE32; FRB Docket No. R–1605 and RIN 7100 AF–04; FDIC RIN 3064–AE74)

Dear Mr. Feldstein, Ms. Misback, and Mr. Feldman,

Zions Bancorporation ("Zions" or "the Company") appreciates the opportunity to submit this letter to the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (collectively, the "Agencies"), in connection with the Agencies' notice of proposed rulemaking ("the NPR") describing proposed supervisory guidance on regulatory capital rules, and the implementation of the Current Expected Credit Losses ("CECL") Methodology.

Zions is one of the nation's premier financial services companies with total assets of approximately $66 billion. Zions operates under local management teams and unique brands in 11 western states: Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, Washington and Wyoming. The Company is a national leader in Small Business Administration lending and public finance advisory services, and is

included in the S&P 500 and NASDAQ Financial 100 indices. Investor information and links to local banking brands can be accessed at zionsbancorp.com.

Zions supports the Agencies' objective to address the capital treatment for the Allowance for Credit Losses ("ACL") in light of the adoption of CECL into Generally Accepted Accounting Principles, and agrees that the timing is appropriate to revisit the relationship between capital rules and accounting for credit losses via the ACL.

In support of this objective, we offer the following comments and recommendations. Zions strongly encourages the reconsideration of the ACL as a primary form of capital, as the company views CECL as a recategorization of loss absorbing capital on the balance sheet. Zions believes the following recommendations would improve the Agencies' ability to regulate the firm's capital strength and position, would create more transparent and useful information for investors, and may help to cushion the adverse macroeconomic impacts due to expected procyclicality of the banking system's collective ACL in an adverse environment.

Executive Summary

Zions is concerned with the negative impact of the proposed changes on the level and volatility of regulatory capital ratios even as the Company's ability to absorb loss remains unchanged. Therefore, Zions strongly encourages a quantitative assessment of the impacts of CECL adoption across the banking industry and reconsideration of the capital treatment of the ACL in the capital rules. This would include:

- A detailed Quantitative Impact Study of the adoption of CECL and the NPR on the regulatory capital of banks. Zions' internal analysis indicates a substantial impact to regulatory capital under the proposed rules, despite no change occurring in the loss-absorbing ability of the Company.

- Inclusion of the ACL in the Common Equity Tier 1 (CET1) calculation, which would allow a more transparent view of loss-absorbing capital to shareholders. If the capital treatment of the ACL changes, the proposed transition period would likely not be required.

I. UNCERTAIN CAPITAL RATIO AND MACROECONOMIC IMPACTS OF THE NPR

Zions asserts that a Quantitative Impact Study is vital prior to the finalization of any rulemaking surrounding CECL and regulatory capital. The NPR in its current state presents deep implications to the capital positions of firms, and would likely significantly increase the volatility of bank capital ratios. Without proper adjustments to account for this impact, the NPR will create less investor transparency through added complexity in the true capital position of a bank, and as a result may adversely impact the banking system's ability to raise capital in times of stress.

A bank's ACL is its primary method of absorbing loss. Each quarterly provision directly impacts the net income and retained earnings of the firm, which in turn directly flows through regulatory capital. This interaction generates a critical connection between rules impacting the ACL and measures of regulatory capital. If rules related to the ACL are changed, then it is imperative that the downstream impact to regulatory capital is carefully assessed in order to appropriately assess these changes.

Under CECL, by factoring the expected losses for the *entire* life of a loan into the calculation for the ACL, firms will be required to hold a CECL-based allowance which is available to absorb losses that have not yet been incurred, and that are not yet probable. This suggests that the loss absorbing characteristics of a CECL-based ACL and regulatory CET1 capital would overlap, as both would be available to absorb credit losses which have not been incurred and are not probable.

Given the heightened capital levels in the banking industry, firms currently possess a sizeable amount of capital reserves. In addressing the most recent DFAST/CCAR stress test results, Vice Chairman Randal Quarles stated, "despite a tough scenario and other factors that affected this year's test, the capital levels of the firms after the hypothetical severe global recession are higher than the actual capital levels of large banks in the years leading up to the most recent recession.[1]" Firms accrete CET1 to conserve for potential losses and economic downturns, and should not suffer a decrease to their CET1 capital levels or ratios due to shifting reserved capital from retained earnings to the ACL during periods of heightened expected losses. Regulatory CET1 ratios at firms play a crucial role in communicating capital strength to investors, and volatility of those ratios with no change in ability to absorb loss would lead to confusion and decreased investor confidence in the banking system.

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[1] *Federal Reserve Board releases results of supervisory bank stress tests*, June 21, 2018, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180621a.htm

The NPR notes: *"...additionally, the (Agencies) considered the alternative of a longer transition period of up to five years. While this alternative might reduce the costs of adopting CECL more than the proposed alternative, it also heightens the risk of capital increase coinciding with a potential future downturn in the business cycle." (underlining added)*

Under a potential downturn in the business cycle, a firm with an adequate ACL would likely be required to increase its ACL, as "life of loan" CECL modeling would project additional losses. The resulting increase in provision for credit losses would directly and adversely impact retained earnings, and would therefore decrease CET1 and associated regulatory capital ratios without changing the firm's ability to absorb losses. This procyclicality demonstrates the tight linkage between a company's ACL and its retained earnings, and is a valuable insight into a firm's financial health when CET1 and ACL are not viewed jointly as a unified mechanism for absorbing loss.

Zions has found in its initial testing of CECL that the standard as written is much more procyclical than current ACL methodologies employed at Zions and at many other banks. Specifically, when back testing the levels of ACL that preliminary CECL models would have produced (based on historical economic forecasts available at the time and the firm's then current loan portfolio composition), Zions has found that peak CECL ACL levels would have far exceeded Zions' reported ACL during the last recession. In addition, Zions' allowance would have been lower when entering the recession and dropped below those prescribed by current GAAP shortly following the recession. Notably, these preliminary models also point to very large increases in ACL levels for consumer real estate loan products. Perhaps most importantly, our models show that CECL would have increased the ACL prior to the recession no sooner than the current ACL methodology, as economic forecasts (which would be the basis for future CECL modeling) are typically a lagging economic indicator.

In connection with this initial testing, Zions has performed a quantitative impact analysis of its hypothetical CECL-based ACL during the last recession. For this study, Zions assumed that CECL-based capital rules, as defined under the proposed NPR, were in place at that time. The company has concluded that CECL NPR rules would have resulted in decreased regulatory capital ratios, despite no change to the company's true loss absorbing capital position (CET1 + ACL). This decrease in regulatory capital would have almost certainly impacted Zions' ability to extend credit. Moreover, this procyclicality would clearly create unnecessary volatility of capital ratios and adversely impact the usefulness and transparency of regulatory capital as a measure of capital adequacy.

To quantitatively demonstrate this point, the following tables present an estimate of year-end capital ratios using the company's initial assessments of CECL under the proposed NPR.

Table A: In the table below, Zions assumes a Reasonable and Supportable ("R&S" – a critical assumption under the CECL rules) period of 12 months, followed by a reversion to the historical average. The R&S forecast is based on a 50% weighting for a baseline scenario, and a 50% weighting for a recessionary forecast. As noted by the red ellipses, capital ratios would have been lower by up to 70 basis points under these assumptions.

		Q4 2007	Q4 2008	Q4 2009	Q4 2010	Q4 2011	Q4 2012
A	Actual Reported - Tier 1 Common Ratio	6.1%	6.0%	6.7%	8.9%	9.5%	9.8%
B	Pro Forma - Tier 1 Common Ratio	6.0%	5.6%	6.0%	9.0%	9.8%	10.2%
A – B = C	CECL Impact to Tier 1 Common Ratio	-0.1%	-0.4%	-0.7%	0.1%	0.2%	0.4%
D	Actual Reported - Total Capital Ratio	11.7%	14.3%	13.3%	17.1%	18.1%	15.1%
E	Pro Forma - Total Capital Ratio	11.7%	14.0%	12.7%	17.3%	18.4%	15.5%
D - E = F	CECL Impact to Total Capital Ratio	0.0%	-0.4%	-0.6%	0.2%	0.3%	0.4%

Table B: In the table below, Zions assumes an R&S period of 27 months, followed by a reversion to the historical average. The R&S forecast is based on a 50% weighting for a baseline scenario, and a 50% weighting for a recessionary forecast. As noted by the red ellipses, capital ratios would have been lower by up to 180 basis points under these assumptions.

		Q4 2007	Q4 2008	Q4 2009	Q4 2010	Q4 2011	Q4 2012
A	Actual Reported - Tier 1 Common Ratio	6.1%	6.0%	6.7%	8.9%	9.5%	9.8%
B	Pro Forma - Tier 1 Common Ratio	6.1%	4.8%	4.9%	8.0%	9.1%	10.0%
A – B = C	CECL Impact to Tier 1 Common Ratio	0.0%	-1.2%	-1.8%	-0.9%	-0.4%	0.2%
D	Actual Reported - Total Capital Ratio	11.7%	14.3%	13.3%	17.1%	18.1%	15.1%
E	Pro Forma - Total Capital Ratio	11.7%	13.3%	11.6%	16.5%	17.9%	15.3%
D - E = F	CECL Impact to Total Capital Ratio	0.0%	-1.0%	-1.7%	-0.6%	-0.2%	0.2%

Zions' internal quantitative impact analysis frames the procyclical challenge of the current NPR. During periods in which provisions increase due to reasonable and supportable macroeconomic forecasts of stressed conditions, the firm's regulatory capital position deteriorates, despite no change to the sum of loss absorbing capital (CET1 + ACL).

The current capital rules were designed in the context of an ACL based upon incurred losses. To adjust for the change from an incurred loss model to an expected loss model, regulatory capital calculations should reflect the true strength of the firm's ability to absorb losses over the lifetime of a loan. The most direct solution is to include the ACL as a component of CET1, which would provide an overarching view of the bank's true ability to absorb loss and therefore its common equity capital position.

II. RECOMMENDATION FOR INCLUSION OF ACL IN COMMON EQUITY REGULATORY CAPITAL

Under Basel guidelines, regulatory calculations have allowed for 1.25% of RWA for Allowance for Loan and Lease Losses ("ALLL") to be included in Tier 2 capital. Zions contends that a ceiling of 1.25% of RWA should not exist, and that all ACL under CECL should be included as Common Equity Tier 1 Capital. While the weighting of an asset is valuable in assessing the general risk of a loan or security, the rules surrounding RWA calculations do not contain enough risk sensitivity to allow for a meaningful cap on the value of the ACL.

An ACL balance is a stronger form of capital than other forms of Tier 2 Capital, and therefore merits a CET1 categorization. Realization of subordinated debt, or even preferred stock, as capital typically requires some form of negotiation with the bond or stock holders, and full loss absorbency may not be realized. This is not the case with an allowance for credit losses, as this is true capital which already exists on the bank's balance sheet and is therefore fully available to absorb losses.

For the above reasons, Zions suggests that the Board reconsider its treatment of ACL in regulatory capital under CECL. The company believes that a stronger linkage between ACL and CET1 will simplify the calculation of regulatory capital, and provide a stronger view into a bank's true financial readiness for future losses.

While the Company appreciates the Agencies' effort to address the day-one impact of CECL on capital, Zions believes this transitional adjustment falls short if the intention is to address the anticipated long-term regulatory capital effects of CECL adoption. Based upon our quantitative analysis, the Company expects the implementation of CECL to introduce greater volatility and procyclicality in the provision for credit losses and related reserves (which will impact both earnings and regulatory capital).

In addition, the temporary benefits received from the proposed transition period would be defined by the prevailing macro-economic conditions at the time the Company adopts CECL (day-one), which could deteriorate materially throughout the transition period. Since only the day-one CECL impact would be amortized, the transitional amounts would fail to reflect the actual impact of the CECL adoption during that period.

The proposed CECL transition schedule demonstrates that a period exists in which a portion of the day-one adverse CECL transition provision may be added back to retained earnings on the balance sheet. However, as described in Section I above, the Company feels that this temporary benefit would not reflect the impact of the CECL adoption if macro-economic conditions were to deteriorate materially after day-one.

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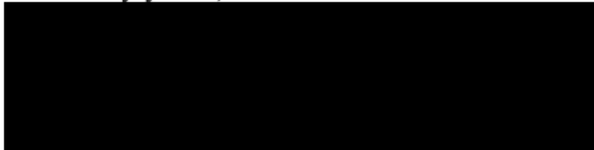
Thank you for your consideration of our comments. We look forward to working with the Agencies to improve both the content and implementation framework of the Guidance.

Sincerely yours,



Paul E. Burdiss
Chief Financial Officer
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