KeyCorp
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July 13, 2018

Via Electronic Mail

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

Board of Governors of the Federal Reserve System
20th Street and 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

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 RIN 1557-AE32; FRB Docket No. R-1605 and RIN 7100-AF 04; FDIC RIN 3064-AE74).*

Dear Ladies and Gentlemen:

KeyCorp ("Key") appreciates the opportunity to comment on the notice of proposed rulemaking ("Proposal") on regulatory capital rules that would implement the current expected credit losses ("CECL") methodology as jointly proposed by 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").

Key is a regional bank headquartered in Cleveland, Ohio with more than $135 billion in assets. We employ more than 18,000 individuals across a 15-state retail footprint from Maine to Alaska serving customers through community bank branches. Key provides our three million clients a variety of services including: deposits, lending, cash management, insurance, and investment and financial advisory services. We are particularly proud to be a top ten Small Business Administration lender, a national leader in affordable-housing finance, and a recipient of nine consecutive "outstanding" Community Reinvestment Act ratings from the OCC.

In addition to this letter, Key also participated in the development of two joint comment letters. One of those letters was submitted by The Clearing House Association L.L.C., the Financial Services Roundtable, and the American Bankers Association. The other letter was submitted by a group of regional banking organizations. We support the comments and concerns raised by both of the joint comment letters. The comments and recommendations in this letter are intended to supplement those submissions.

Overview
Current U.S. GAAP accounting standards require companies to use an "incurred loss" methodology for recognizing credit losses; this method delays recognition until it is probable that a loss will be incurred. Beginning in January 2020, the incurred loss methodology will be replaced with the CECL methodology requiring banks to recognize life-of-asset credit losses upon acquisition of an asset.

CECL marks a fundamental departure from how banks estimate and recognize credit losses, and we write to express concern about the implications for banks of all sizes, our respective customers, and possible impact on the economy more broadly.

We continue to share the Agencies' commitment to maintaining a safe and sound banking system and the overall stability of the financial system. Since the financial crisis, the aggregate common equity tier 1 (CET1) capital ratio amongst the top 25 banks has nearly tripled. Adoption of various enhanced prudential standards, including CCAR and DFAST, has ensured that banks are well-capitalized and equipped to absorb losses while meeting the needs of creditors and continuing to lend to businesses and households through a potential economic downturn. We are concerned that CECL, in its current form, will have unintended consequences that must first be fully analyzed and considered.

To that end, and in conjunction with industry trade associations and regional banking organization peers, we respectfully offer the following recommendations that would assist with: minimizing day-one impact; ensuring the regulatory capital framework accurately assesses risk and accounts for it appropriately; limiting the impact to households, businesses and the overall economy; and charting a course for comprehensive study and analysis.

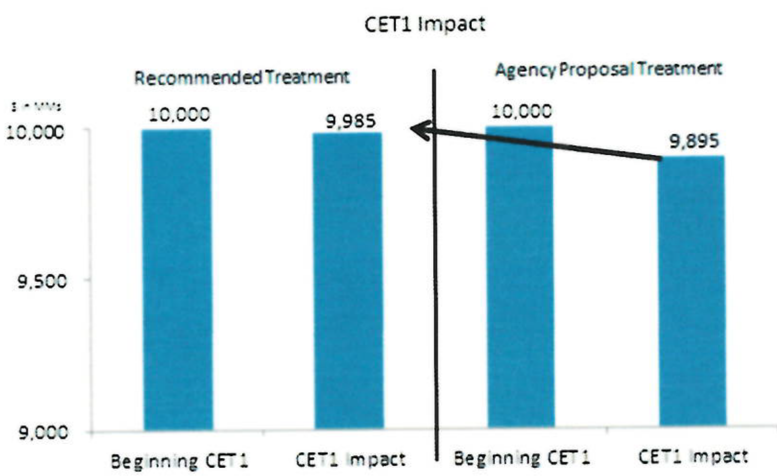
Recommendations:
With implementation of CECL set for January 2020, we are exceedingly concerned with "day one" impact. Banks will be required to hold incremental reserves included in CET1 capital due to the upfront recognition of lifetime credit losses. Recognition of losses at acquisition ignores the earning potential of these assets and thus does not align the recognition of expenses with revenues. This misalignment will have perverse effects on the types and characteristics of credit products made available to bank customers. These effects would be magnified in periods of economic stress and may ultimately serve to exacerbate the effects of that stress on the overall economy as credit will invariably be limited due to the cost-benefit proposition imposed by CECL. Additionally, this accounting change will affect the level of capital and, by extension, availability of credit, ignoring the fact that fundamental risk characteristics and profiles of banks will have not changed upon implementation.

We appreciate the Agencies' proposed transitional arrangement that would phase-in CECL adoption over three years. We believe, however, the magnitude of this accounting change deserves and requires a permanent solution that comprehensively revises the regulatory capital framework.

Specifically, we strongly endorse the idea, and encourage the Agencies to work with FASB, to bifurcate the recognition of CECL allowances into two components: (1) expected losses to be incurred over the next 12 months debited to the provision for credit losses in the current period thus affecting retained earnings and regulatory capital, and (2) remaining expected lifetime losses be recognized as a change in Other Comprehensive Income. We would further recommend that this portion of Accumulated Other Comprehensive Income be offset in regulatory capital for all banks. These changes would fulfill the goals of operational simplicity, transparency and avoidance of unintended consequences. Given the robustness of capital levels and capital management practices of banks this would serve to be capital neutral.

Illustrative Example: $1B Residential Mortgage portfolio with 1.5% annual loss rate with 7 year weighted average !

Credit loss ((1.5% x $1B) x 7) = $105 MM
12 month Expected Credit Loss reduction to Retain Earnings (1.5% x $1B) = $15 MM
Remaining Expected lifetime losses in AOCI ((1.5% x $1B) x 6) = $90 MM



In this example, given a CET1 ratio of 10%, the CECL proposed treatment will reduce lending capacity for mortgage product (50% risk weighting) by $1.8B vs. the recommended treatment

Finally, we submit that CECL and CCAR must be evaluated collectively, and in a holistic manner, to avoid unintended consequences and unwarranted complexity. The Federal Reserve's recent proposal on stress capital buffer (SCB) requirements would integrate capital planning, stress testing and capital requirements. Incorporation of CECL into CCAR should be thoroughly evaluated as part of that process with an emphasis on ensuring the stress testing process, inclusive of CECL, is realistic, transparent, and not unnecessarily complex.

To that end, we support a delay in the incorporation of CECL in to CCAR until the 2021 stress testing cycle. Additionally, absent any change to capital regime that permanently neutralizes the effect of CECL on regulatory capital levels at banks, the proposed rules governing establishment of the stress capital buffer should be altered in that the SCB be established based on ratios at the end of the planning horizon versus the minimum ratios during the horizon.

Taken together, CECL fundamentally changes how companies will recognize credit losses with the potential to exacerbate pro-cyclicality of lending and impair credit availability especially during downturns. We take seriously our commitment to maintaining a safe and sound banking system, and believe the macroeconomic and public policy implications of CECL warrant a robust and empirical assessment. We encourage the Agencies to delay implementation of CECL pending the completion of a quantitative impact study, and to promulgate accompanying rulemaking(s) as warranted.

Key thanks the Agencies for the opportunity to comment on the Proposal and respectfully asks for consideration of the recommendations and suggestions in this letter. If you have any questions regarding the content of this letter or would like more information on this subject, please do not hesitate to contact me.

Respectfully Submitted,

[redacted]

Don Kimble
Chief Financial Officer