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June 21, 2019

By Electronic Mail

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Re: Notice of Proposed Rulemaking, Prudential Standards for Large Foreign Banking Organizations; Revisions to Proposed Prudential Standards for Large Domestic Bank Holding Companies and Savings and Loan Holding Companies, Federal Reserve Docket No. R-1658 and RIN 7100-AF45; Joint Notice of Proposed Rulemaking, Changes to Applicability Thresholds for Regulatory Capital Requirements for Certain U.S. Subsidiaries of Foreign Banking Organizations and Application of Liquidity Requirements to Foreign banking Organizations, Certain U.S. Depository Institution Holding Companies, and Certain Depository Institution Subsidiaries, Federal Reserve Docket No. R-1628B and RIN 7100-AF21, OCC Docket No. OCC-2019-0009 and RIN 1557-AE63, FDIC RIN 3064-AE96

To whom it may concern:

The Royal Bank of Canada[1] ("RBC") appreciates the opportunity to comment on (i) the notice of proposed rulemaking issued by the Board of Governors of the Federal Reserve System (the

[1] RBC and its subsidiaries operate under the public brand name RBC. RBC is the largest bank in Canada, and one of the largest banks in the world, based on market capitalization. The RBC Group is a diversified financial services company, providing personal and commercial banking, wealth management services, insurance, corporate and investment banking, and transaction processing services on a global basis. The RBC Group employs over 80,000 full-and part-time employees who serve more than 16 million personal, business, public sector, and institutional clients through offices in Canada, the United States, and 35 other countries. In the US, the RBC Group employs approximately 13,400 full- and part-time employees.

"Federal Reserve") regarding proposed changes to the enhanced prudential standards ("EPS") for large foreign banking organizations ("FBOs") and (ii) the joint notice of proposed rulemaking issued by the Office of the Comptroller of the Currency ("OCC"), Federal Reserve, and the Federal Deposit Insurance Corporation ("FDIC") (collectively, the "Agencies") regarding proposed changes to the applicability thresholds for certain capital and liquidity requirements (hereinafter collectively referred to as "the Proposal").[2] We also appreciate the opportunity to comment on the Agencies' questions regarding whether to apply additional liquidity requirements to the U.S. branches and agencies of FBOs.

At the outset, we acknowledge and appreciate the extensive effort and thoughtfulness by the Agencies' leaders and staff that the Proposal reflects. We support the core objectives of the Proposal, including (i) tailoring EPS, capital, and liquidity requirements for FBOs based on the size and risk of their U.S. activities,[3] (ii) making the regulatory framework for the U.S. operations of FBOs more simple, transparent, and efficient,[4] and (iii) advancing the statutory requirements of national treatment and competitive equality and taking into account comparable home country standards.[5]

We believe that the Proposal advances these objectives in three key respects:

1. It would apply EPS to FBOs on the basis of U.S. assets and U.S. risk-based indicators ("RBIs"). Under current rules, EPS are generally applied to FBOs on the basis of their global consolidated assets. This criterion has caused more FBOs to be subject to EPS than U.S. bank holding companies ("BHCs"), notwithstanding that the U.S. footprint of many of these FBOs is smaller than that of U.S. BHCs not subject to EPS.[6] Applying EPS based on FBOs' U.S. footprint

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2 "Prudential Standards for Large Foreign Banking Organizations; Revisions to Proposed Prudential Standards for Large Domestic Bank Holding Companies and Savings and Loan Holding Companies," 84 Fed. Reg. 21988 (May 15, 2019); "Changes to Applicability Thresholds for Regulatory Capital Requirements for Certain U.S. Subsidiaries of Foreign Banking Organizations and Application of Liquidity Requirements to Foreign Banking Organizations, Certain U.S. Depository Institution Holding Companies, and Certain Depository Institution Subsidiaries," 84 Fed. Reg. 24296 (May 24, 2019).

3 See, e.g., 84 Fed. Reg. at 21989.

4 See id.

5 12 U.S.C. 5365(b)(2) (requiring that the Federal Reserve give due regard to the principle of national treatment and equality of competitive opportunity in applying EPS to FBOs, and take into account the extent to which the foreign financial company is subject on a consolidated basis to home country standards that are comparable to those applied to financial companies in the United States).

6 See "Recommendations for the Report of the Treasury Secretary", Institute of International Bankers, April 28, 2017, at 16 (https://c.ymcdn.com/sites/iib.site-ym.com/resource/resmgr/iib_comment_letters/IIB_Recommendations_to_Treas.pdf) ("Recommendations")("Since the Dodd-Frank Act, the Federal Reserve Board has taken the view that, with regard to international banks, the $50 billion threshold applies to those institutions with global consolidated assets of greater than $50 billion, regardless of their U.S. footprint. Under this interpretation, more than 110 non-U.S. institutions are required to adhere to some form of U.S. enhanced regulatory standard, while only 26 U.S. BHCs have consolidated assets greater than $50 billion. . . . Furthermore, of the 110 international banks with U.S. operations that are pulled into the U.S. systemic risk threshold, 59% (65) have less than $10 billion in U.S. assets and 79% (87) have less than $50 billion in U.S. assets. See also Federal Financial Institutions Examination Council, "Large Holding Companies"

is more appropriate in light of the purpose of section 165 of the Dodd-Frank Act to address U.S. financial stability.

2. It adopts the RBI methodology[7] which, if appropriately indexed and calibrated, can serve as a simpler, more efficient, and more transparent approach to tailoring the application of EPS, capital, and liquidity requirements to the U.S. operations of FBOs.

3. It appears to eliminate, through the use of the RBIs, the $10 billion foreign exposure threshold, which has been used to apply more stringent regulatory requirements and which has disproportionately affected FBOs compared to U.S. BHCs. This threshold evolved to serve as a binding constraint on many FBO's U.S. operations without regard to the risk of those operations.[8]

To the extent that they are relevant to RBC's business operations, we support the comments submitted by the Institute of International Bankers ("IIB"), Securities Industry and Financial Markets Association ("SIFMA"), Bank Policy Institute ("BPI"), the Institute for International Finance ("IIF"), and the Canadian Bankers Association ("CBA") regarding the Proposal and, where relevant, regarding the Agencies' questions about applying new liquidity requirements to the U.S. branches and agencies of FBOs. Our letter addresses several particular issues raised by the Proposal and by the questions regarding additional liquidity requirements for FBOs' branches and agencies. Specifically, we respectfully request that the Agencies consider the following changes to the Proposal:

1. Apply capital, liquidity and other risk management requirements to an IHC based on that IHC's size and RBIs, not on the size and risk characteristics of an FBO's combined U.S. operations ("CUSO")[9];

2. Revise the methodology and application of RBIs in order to more closely correlate to the actual risk posed to U.S. financial stability by the U.S. operations of FBOs;

(https://www.ffiec.gov/npw/Institution/TopHoldings) (showing that 27 of 39 holding companies in the US with US assets of $100bn or more are US firms).

7 As set forth in the Proposal, the RBIs are weighted short-term wholesale funding ("wSTWF"), cross-jurisdictional activity ("CJA"), nonbank assets ("NBA"), and off-balance sheet exposure ("OBE").

8 See Recommendations at pp. 35-37 ("Originally, the foreign exposure threshold was introduced (well before the Dodd-Frank Act) to identify those U.S. banking organizations that were sufficiently active internationally to warrant application of new, more flexible regulatory capital standards promulgated by the Basel Committee on Banking Supervision. However, with the proposal and adoption of a number of enhanced prudential standards under the Dodd-Frank Act over the past several years, the threshold has become increasingly divorced from this original purpose. Instead, the threshold has been used as a proxy for riskiness and complexity that triggers the application of more stringent requirements to those institutions that meet it.").

9 CUSO refers collectively to the combined U.S. operations of an FBO, including any IHC and/or U.S. branches and agencies. 12 CFR 252.2(e).

3. Eliminate new daily liquidity and associated reporting requirements for IHCs that are burdensome, that would not materially improve liquidity risk management, and that would place IHCs and their insured depository institution subsidiaries ("IDIs") at a competitive disadvantage relative to U.S. BHCs and their IDIs;

4. Retain the current modified LCR for certain Category III and Category IV firms; and

5. Address any concerns regarding branch liquidity only after determining that (i) new branch liquidity requirements are warranted, (ii) there is appropriate deference to comparable home-country standards, (iii) new requirements are based solely on the characteristics of the branch, and (iv) duplicative existing U.S. regulatory requirements are eliminated.

We will address each of these proposed revisions in turn, followed by a brief discussion of several related matters.

1. Apply capital, liquidity and other risk management requirements to an IHC based on that IHC's size and RBIs, not on the size and risk characteristics of an FBO's CUSO.

In contrast to the domestic tailoring proposal[10], the Proposal imposes certain requirements on one part of an FBO's U.S. operations – the IHC, including any subsidiary IDI – based not on the IHC's characteristics, but rather on the risk characteristics of the FBO's CUSO. Specifically, standardized liquidity requirements, liquidity-related and certain other EPS, including risk management requirements such as single-counterparty credit limits ("SCCL"), would be imposed on an IHC based on the characteristics of the FBO's CUSO, rather than on the characteristics of the IHC alone. The Proposal is made more complex by the fact that standardized liquidity requirements would not only apply to an IHC based on its FBO's CUSO, but also to any subsidiary IDI with $10 billion or more in total consolidated assets ("Covered IDI").

This approach is inconsistent with the statutory directive to give due regard to the principles of national treatment and equality of competitive opportunity, since the domestic proposal would apply new requirements – if any – based on the characteristics of the BHC. It is also inconsistent with the Federal Reserve's objectives of greater simplicity, efficiency, and precision with respect to identifying and mitigating risk.[11] For example, under the Proposal, an IHC funded primarily

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10 See Prudential Standards for Large Bank Holding Companies and Savings and Loan Holding Companies, 83 Fed. Reg. 61408 (Nov. 29, 2018); Proposed Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements, 83 Fed. Reg. 66024 (Dec. 21, 2018).

11 See 84 Fed. Reg. at 21990 (stating that the Proposal "is designed to more precisely address the risks presented by foreign banking organizations to U.S. financial stability… ."); see also Federal Reserve Board Vice Chairman for Supervision Randal K. Quarles, "Early Observations on Improving the Effectiveness of Post-Crisis Regulation", the American Bar Association Banking Law Committee Annual Meeting,

by non-brokered deposits could be subjected to heightened liquidity requirements if one of the CUSO's branches exceeded the threshold for wSTWF.

Moreover, placing heightened requirements on the IHC on the basis of the CUSO's characteristics would not necessarily mitigate risks identified in an FBO's U.S. branches or agencies, given that Section 23A of the Federal Reserve Act and Regulation W restrict the funding of an affiliated branch by an IDI of an IHC.[12] In addition, OCC requirements also restrict the types of activities in which a federal branch can engage, in order to limit risk.

2. **Revise the methodology and application of RBIs in order to more closely correlate to the actual risk posed by the U.S. operations of FBOs to U.S. financial stability.**

As a general matter, the Proposal does not fully consider the unique characteristics of FBOs and their U.S. operations in connection with the RBIs. In our view, the calculation of RBIs can and should be revised to make them more risk-sensitive and precise indicators of actual risk to U.S. financial stability, which would also have the positive effect of supporting national treatment and competitive equality.

a. *Exclude inter-affiliate transactions from all RBIs*

We appreciate that, in relation to CJA, the Proposal excludes certain non-U.S. affiliate liabilities and claims of FBOs.[13] This treatment should be extended to exclude all inter-affiliate transactions or exposures of an FBO for purposes of calculating all of the RBIs, as the Agencies did for BHCs in the domestic tailoring proposal. Inter-affiliate and cross-jurisdictional exposures and transactions are inherent to FBOs' U.S. operations and activities. These exposures or transactions in most cases represent routine funding for the U.S. operations of FBOs. In particular, many of these inter-affiliate funding transactions include IHCs as well as U.S. branches and agencies of FBOs that either receive funding support from the FBO or provide access to U.S. markets to FBO affiliates (e.g., in connection with repurchase agreements and reverse repurchase agreements ("repo" and "reverse repo") activities). These types of transactions are often used for risk management purposes and to that extent generally serve to mitigate risk, not to increase it. Moreover, as discussed in more detail below, the Agencies already have supervisory tools to address specific concerns about certain inter-affiliate transactions, including the Complex Institution Liquidity Monitoring Report ("FR 2052a"),

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Washington, D.C. (Jan. 19, 2019) (stating that efficiency of regulation "can mean calibrating a given regulation more precisely to the risks in need of mitigation.").

12 Similarly, the branch cannot fund the broker-dealer that is under the IHC.

13 See 84 Fed. Reg. at 21995. In the Proposal, CJA would be measured excluding cross-jurisdictional liabilities to non-U.S. affiliates and cross-jurisdictional claims on non-U.S. affiliates to the extent that these claims are secured by financial collateral. The Agencies recognize that excluding from the calculation of CJA all transactions with non-U.S. affiliates would be a less burdensome way to account for structural differences between FBOs' U.S. operations and U.S. bank holding companies.

which provides transparency of affiliate funding flows (including geography) to allow for appropriate oversight and supervision by the Federal Reserve.

b. wSTWF

Excluded affiliate transactions should include brokered deposits and brokered sweep deposits for the purposes of calculating wSTWF. As the Agencies have previously stated[14], these affiliate deposits are more stable sources of funding than other sources of funding and do not implicate the concerns that prompted the Agencies to establish the wSTWF RBI -- namely, concerns about interconnectedness and vulnerability to large-scale funding runs.[15]

Should the Agencies decide not to exclude affiliated brokered sweep deposits from the calculation of wSTWF, we believe that the Agencies should, at a minimum, assign a lower weighting of 10% to these deposits, consistent with the U.S. LCR rule. Under the U.S. LCR rule, FDIC-insured brokered sweep deposits arising out of brokerage arrangements with affiliates are assigned a 10% outflow rate.[16] In contrast, brokered sweep deposits arising out of brokerage arrangements with third parties are assigned a 25% outflow rate.[17] However, as proposed, the Form FR Y-15 would weight all brokered sweep deposits at 25%,[18] thus not sufficiently tailoring the measurement to the risks that the Agencies have determined is appropriate in related situations.[19] It would be consistent with principles of simplicity, transparency, and efficiency to

[14] The LCR Final Rule ("Liquidity Coverage Ratio: Liquidity Risk Measurement Standards," 79 Fed Reg. 61440, 61493)(Oct. 10, 2014) specifically argues for favorable treatment of affiliated sweep deposits: "Affiliated brokered sweep deposits generally exhibit a stability profile associated with retail customers, because the affiliated sweep providers generally have established relationships with the retail customer that in many circumstances include multiple products with both the covered company and the affiliated broker-dealer. Affiliated brokered sweep deposit relationships are usually developed over time. Additionally, the agencies believe that because such deposits are swept by an affiliated company, the affiliated company would be incented to minimize harm to any affiliated depository institution." By contrast, unaffiliated brokered sweep deposits are from third-party intermediaries. These relationships can add volatility and "fluctuate significantly" in a stressed scenario because the third party may "move entire balances away from the bank."

[15] See 84 Fed. Reg. at 21998.

[16] 12 C.F.R. § 249.32(g)(7).

[17] 12 C.F.R. § 249.32(g)(8).

[18] See 0.25 coefficient applied to Form FR Y-15, Schedule G, Line Item 5, Column A figures, including those in Item 1(e) (encompassing all brokered sweep deposits). FR Y-15 Instructions at p. G-2. This coefficient would not appear to change in the proposed revisions to the Form FR Y-15 Instructions. See Form FR Y-15, Schedule N, Line Item 5, Columns A-C in proposed revisions the Systemic Risk Report, https://www.federalreserve.gov/reportforms/formsreview/FR_Y-15%20Instruction%20Revisions%20(FBO%20Tailoring)%20Final.pdf.
We note that the 25% weight applies to values that have a remaining maturity of 30 days or less or that have no maturity date (Column A figures). This constitutes the majority of affiliate brokered sweep deposits. It is much less likely that brokered sweep deposits would be in the 10% or 0% weighting for Columns B-D that apply to term funding of greater than 30 days.

[19] The FDIC has also distinguished between affiliate and non-affiliate brokered deposits, including taking the position that a broker-dealer that sweeps customer cash into an account at an affiliated bank may be exempt from the definition of "deposit broker". See FDIC Advisory Op. No. 05-02 (2005). This position significantly favors deposits received from affiliate brokers by placing them entirely outside the scope of the FDIC's brokered deposit regulations.

align the tailoring threshold metrics in wSTWF with underlying rules, such as the U.S. LCR, that the thresholds purport to calibrate.

More fundamentally, the use of wSTWF can and should be revised to consider the liquidity of underlying assets. According to the Proposal, the Agencies' use of wSTWF as an RBI is based on their concern that FBOs "that fund long-term assets with short-term liabilities from financial intermediaries such as investment funds may need to rapidly sell less liquid assets to meet withdrawals and maintain their operations in a time of stress, which they may be able to do only at 'fire sale' prices."[20] However, the Proposal would measure wSTWF only by reference to an FBO's gross liabilities, without considering the risk characteristics of the assets funded by those liabilities. In this regard, the wSTWF indicator would not necessarily provide an accurate measure of liquidity risk. Therefore, it should be modified to take into account collateral that is low-risk or no-risk, as well as financing arrangements that would not be subject to a "fire sale." These could include funding High-Quality Liquid Assets ("HQLA") with short-term funding (e.g., repo or securities lending), hedging low-risk short-term assets (e.g., reverse repo) with short-term funding, providing matched book repo services for clients, or using Federal Home Loan Bank ("FHLB") funding.

c. CJA

In addition to exempting all inter-affiliate transactions from the CJA, the Agencies should clarify that CJA excludes cross-jurisdictional liabilities and claims between U.S. subsidiaries – including any IHC – and any U.S. branches or agencies of any FBO (i.e., whether or not an affiliate), since these transactions are domestic in nature. Failure to exclude such transactions from the CJA would run contrary to principles of national treatment and equality of competitive opportunity and would discriminate against U.S.-based activity solely because a counterparty is a U.S. branch or agency of an FBO.

Further, any liabilities to and claims against a home country sovereign (including its political subdivisions), as well as supranational, international and regional organizations, should also be excluded from the CJA indicator.

d. NBA

The NBA RBI is a flawed indicator of risk and should be eliminated. The Agencies have not provided evidence to support the position that non-bank assets are appropriate proxies for risk. Indeed, entities within an FBO's U.S. operations hold many non-bank assets that are recognized by the Agencies as low-risk and, in some cases, are required by U.S. regulation (e.g., to meet liquidity requirements). These include Treasury and Agency securities, cash and Level 1 and 2A HQLA (as well as securities financing transactions collateralized by such HQLA), assets related to bank-permissible activities (such as secured loans, hedging instruments, highly liquid instruments, transactions that are centrally cleared, etc.), zero-percent risk-weighted assets,

[20] 84 Fed. Reg. at 24308.

goodwill, deferred tax assets, defined benefit pension fund assets, and other intangibles that are deducted from regulatory capital under the Federal Reserve's Regulation Q. In that regard, the calculation methodology for NBA would penalize broker-dealer subsidiaries for holding these and other liquid and high-quality assets and treat such assets as inherently more risky solely because they are held at a non-bank entity rather than a bank subsidiary.

In the alternative, should the Agencies decide to retain the NBA RBI, we recommend that they appropriately risk-weight assets, including those referenced in the above paragraph.

e. Dollar thresholds for the Proposal's U.S. asset size categories and RBIs

The dollar thresholds for the Proposal's U.S. asset size categories and RBIs lack empirical justification as to why these thresholds are appropriate measures of risk warranting more stringent regulations. This issue is important from a national treatment and competitive equality perspective because the thresholds for the RBIs are generally more binding for FBOs than for BHCs under the domestic tailoring proposal, which – with one exception – would categorize BHCs based on their asset size rather than on the basis of the RBIs. In that regard, the RBI thresholds may have a disparate impact on FBOs relative to BHCs, especially when those same numeric thresholds are applied for both the IHC and the CUSO. As such, these thresholds could serve as an artificial constraint on the growth of FBOs' U.S. operations. We respectfully submit that more data and analysis be provided to justify application of these proposed dollar thresholds before the Proposal is finalized.

In addition, the Proposal should be revised to include a mechanism by which the thresholds, once finalized, will be periodically adjusted to reflect growth in the U.S. financial system and inflation. Such an approach would minimize the potential for arbitrary thresholds and artificial constraints on future growth.

3. **Eliminate new daily liquidity and associated reporting requirements on IHCs that are burdensome, that would not materially improve liquidity risk management, and that would place IHCs and their IDIs at a competitive disadvantage relative to U.S. BHCs and their IDIs.**

The Proposal would apply daily U.S. LCR and required stable funding ("RSF", the Federal Reserve proposed version of the Basel III Net Stable Funding Ratio ("NSFR")) requirements and associated reporting requirements to the IHCs of Category III FBOs (in addition to Category I and II firms), most of which are currently subject to modified LCR or not subject to LCR at all. It would also apply these daily requirements to such FBOs' Covered IDIs.[21] In the context of RBC, these new daily requirements would apply to RBC's U.S. IHC and to its Covered IDI, City

21 In addition, it would require daily FR 2052a liquidity reporting for several FBOs which are currently subject to less frequent reporting requirements. Based on Federal Reserve projections, eight of nine BHCs subject to daily liquidity requirements, including reporting, are U.S. global systemically important banks ("G-SIBs") in Category I. By contrast, six FBOs and their IHCs – none of which are in Category I --would be subject to such requirements.

National Bank ("CNB"), a national banking association and a wholly owned RBC subsidiary with $51.8 billion in total assets as of March 31, 2019.[22] If RBC is categorized as a Category III FBO, [23] this requirement would result in RBC's IHC and CNB being subject to "reduced" (adjusted to 70% - 85% of their full amount) daily LCR and RSF requirements as well as the associated reporting requirements, instead of the current monthly "modified" LCR requirements which currently only apply to the IHC.

These requirements would impose significantly more stringent liquidity risk management operational and reporting burdens on CNB solely because it is a subsidiary of an IHC. The proposed daily LCR requirements would lead to the unintended consequence of having to build the relevant operational reporting infrastructure as if daily FR 2052a reporting was required in line with requirements for Category II firms, because essentially the same data system and data are used to generate the FR 2052a reports and to calculate the daily LCR.

Daily LCR and RSF, and de facto daily FR 2052a reporting, for both the IHC and its Covered IDI would have several effects that we believe are inconsistent with the purposes of the Proposal:

(i) Establishing a daily liquidity reporting capability would require a significant expenditure of financial and technological resources that has not been shown to be necessary;

(ii) Given existing home- and host-country requirements regarding liquidity and liquidity risk management that apply to an FBO's consolidated operations, the Proposal's requirement that Category III firms meet a daily LCR standard, and demonstrate their ability to do so through the supervisory process, would not materially improve liquidity positions in the IHC and/or the Covered IDI; and

(iii) The unjustified operational costs and compliance obligations would place IHCs and their Covered IDIs at a competitive disadvantage relative to BHCs and their IDIs of comparable size and risk profile that would not face such requirements.

In order to avoid these negative outcomes, we suggest revising the Proposal to establish a sliding scale of liquidity-related requirements more appropriate to FBOs' US size and risk profiles. Under this revised framework, Category I firms would be subject to a daily full LCR and daily FR 2052a reporting on a T+2 schedule; Category II firms would be subject to a monthly full LCR and monthly FR 2052a reporting on a T+10 schedule; Category III firms would be subject to the current modified LCR regime and quarterly 2052a reporting; and Category IV firms would

[22] CNB is a national banking association founded in 1954 and headquartered in Los Angeles, California. CNB became a part of Royal Bank of Canada (RBC) in November 2015. CNB offers a full complement of banking, trust and investment services in over 70 offices, including 19 full-service regional centers, in Southern California, the San Francisco Bay Area, Nevada, New York City, Nashville, Atlanta, Minneapolis, and Washington, D.C. Banking products and services, include commercial and mortgage lending, lines of credit, equipment lease financing, deposits, cash management services, international trade finance and letters of credit.

[23] See Presentation Materials for Prudential Standards for Foreign Banking Organizations (April 8, 2019) at https://www.federalreserve.gov/aboutthefed/boardmeetings/files/foreign-bank-visuals-20190408.pdf.

not be subject to LCR and FR 2052a reporting requirements or, in the alternative, certain Category IV firms with relevant wSTWF measures would be subject to modified LCR and quarterly 2052a reporting. This framework would align with the frequency of these firms' liquidity stress testing requirements under Regulation YY. In addition, this framework would be appropriately tailored for Category IV FBOs, which otherwise would be required to report granular liquidity-related information in a manner that generally tracks a regulatory requirement (i.e., the U.S. LCR) to which they would not be subject.

4. Retain the current modified LCR for certain Category III and Category IV firms.

Under the Proposal, the characteristics of an FBO's CUSO alone could require its IHC and any Covered IDI to comply with full LCR and RSF if they are a Category II firm, or "reduced" daily LCR and NSFR if they are a Category III firm. By requiring Covered IDIs to hold a larger liquidity buffer to satisfy the proposed liquidity requirements, the Proposal could result in tighter credit availability for clients and customers in the communities they serve. In its current form, the Proposal will place CNB, a Covered IDI with a low risk-profile, at a competitive disadvantage in relation to comparable IDIs of U.S. BHCs. In that regard, the Proposal would place additional limits on the ability of CNB to provide loans to and make investments in its clients and in the communities it serves.

We therefore urge the Agencies to allow Category III firms' IDIs to calculate LCR requirements under the current "modified" LCR, rather than the proposed "reduced" LCR. This would result in the IHC, but not its Covered IDI, being subject to an LCR, which would be calculated monthly rather than daily with the LCR co-efficient being set at 70%. Moreover, IHCs would not be required to include the maturity mismatch add-on when calculating the required amount of HQLA.

In addition, we note that the proposed "reduced" LCR would differ from both the current LCR and the current "modified" LCR in another material respect. When calculating the amount of subsidiary-held HQLA that may be included in the holding company's LCR numerator, both current rules permit inclusion of an amount of HQLA up to 100% of the subsidiary's net cash outflows (plus amounts that may be transferred without restrictions to the top-tier entity). By contrast, the proposed "reduced" LCR would only permit inclusion of an amount of HQLA up to 70-85% of the subsidiary's net cash outflows (depending on the level at which the scaling factor is ultimately set). In Question 47 of the Proposal (Question 28 of the domestic tailoring proposal), the Federal Reserve specifically requests comment on this approach and asks whether, for example, the Federal Reserve should instead "consider the approach the [Federal Reserve] Board currently permits for depository institution holding companies subject to a modified LCR requirement. Under this approach, a holding company may include in its HQLA amount eligible HQLA held at a subsidiary up to 100 percent of the net cash outflows of the subsidiary, plus amounts that may be transferred without restriction to the top-tier covered company."[24]

[24] 84 Fed. Reg. at 24319.

We note that while this specific example refers to the modified LCR, the same construct is used to calculate the numerator for the top-tier entity's full LCR under the current rule. Accordingly, as proposed, we do not believe the "reduced" LCR would be less stringent (and most likely, would be more stringent) than the current full LCR, and is certainly more stringent in this respect than the current modified LCR. In order to be less stringent, the 70-85% scale should only be applied when calculating the denominator of the top-tier entity's LCR, not the numerator (which is how the modified LCR works). Since the intent of the "reduced" LCR is to provide a less stringent version of the rule for firms that would not be subject to the current version of the full LCR, we recommend that the Board adopt the alternative approach (i.e., the current approach) for determining the amount of subsidiary-held HQLA that may be included in the top-tier entity's LCR numerator. The same argument applies with respect to the NSFR when calculating the amount of the top-tier entity's Available Stable Funding.

If the Board declines to impose the "modified" LCR on Category III firms, then we request that it at least retain the construct for determining how much subsidiary-held HQLA can be included in the numerator of the top-tier entity's LCR that is contained in the current version of both the full LCR and modified LCR.

To the extent the Agencies do not amend the Proposal as suggested above, the size of the IDI should at least be accounted for in the Category assignment for liquidity requirements, as the bulk of the line items in the FR 2052a are applicable to, and driven by, the calculation of the IDI's profile. Alternatively, the Agencies should increase the U.S. $10 billion asset size threshold for Covered IDIs to U.S. $250 billion, which would be consistent with other relevant rules.[25]

5. **Any concerns regarding branch liquidity should be addressed only after determining that (i) new branch liquidity requirements are warranted, (ii) there is appropriate deference to comparable home-country standards, (iii) new requirements are based solely on the characteristics of the branch, and (iv) duplicative existing US regulatory requirements are eliminated.**

The Proposal suggests that one reason for imposing new liquidity requirements on IHCs based on the FBO's CUSO is the possibility that branch and agency risk could become IHC risk. As stated in the Proposal, "funding vulnerabilities at a U.S. branch can expose [an FBO's] other U.S. operations to heightened liquidity risk because their customers and counterparties may not distinguish liquidity stress at one component of the U.S. operations from the liquidity position of another part of the U.S. operations."[26] However, no quantitative or qualitative analysis has been provided to support this assertion. Such an analysis would be consistent with the Agencies' commitment to greater transparency in their rulemakings, and would help FBOs to better understand the basis for the Proposal**.**

25 E.g., 12 CFR 50.1(b)(1)(iii)(A) is $250 billion threshold for covered depository institution holding companies. Similarly, the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155, Public Law No. 115-174 (2018)) establishes a $250 billion tailoring threshold for BHCs.

26 84 Fed. Reg. at 21990.

a. New IHC liquidity requirements would not address identified risks in the branch

Further, the approach contained in the Proposal – that is, establishing IHC liquidity requirements based on CUSO characteristics -- would be an inefficient and ineffective means to address identified concerns about risks to U.S. branches. Existing regulations limit the ability of IDIs to address liquidity needs at a U.S. branch or agency. For example, to the extent that additional liquidity requirements imposed by the Proposal on an IHC would be met by increased deposit-taking by the IHC's IDI, Section 23A of the Federal Reserve Act and Regulation W would restrict the ability of IDIs within an IHC to act as a source of liquidity for the branch. In addition, Section 23A and Regulation W would also restrict the U.S. branch's ability to fund the liquidity needs of a U.S. broker-dealer subsidiary of the IHC.

b. Existing regulatory and supervisory tools are adequate to address concerns about U.S. operations, including branch liquidity.

Existing supervisory and regulatory tools at the disposal of both home and host country regulators are adequate to address concerns about branch liquidity (assuming those concerns can be identified by quantitative and qualitative analysis). These tools include:

Home country

i. Existing, standardized liquidity requirements (including home-country LCR) are imposed on a consolidated basis (i.e., including on an FBO's IHC, branches, and agencies) by home-country regulators that meet the standards established by the Basel Committee on Banking Supervision ("BCBS") and the Financial Stability Board ("FSB"). In Canada, the Office of the Superintendent of Financial Institutions ("OSFI") required Canadian banks, including RBC, to adopt key liquidity metrics, including LCR and NSFR, ahead of other jurisdictions and on a consolidated basis.

ii. Existing requirements intended to ensure adequate funding of branches, including those outside of the home country. In Canada, for example, under Section 369 of the Bank Act, obligations to depositors and creditors constitute an equal charge on the assets of the bank, regardless of their location (with the exception of subordinated indebtedness). As such, branch obligations would constitute an obligation of the bank.

U.S.

iii. Existing supervision – including liquidity supervision – and regulation of U.S. branches by the OCC and state bank supervisors, including the capital equivalency deposits ("CED") requirement.

iv. Existing branch liquidity stress testing and buffer requirements pursuant to Regulation YY, which effectively allocate a portion of the assets maintained in connection with the standardized home-country LCR to FBOs' U.S. operations.[27]

v. Existing supervisory tools of the Federal Reserve and licensing authorities to monitor liquidity risks of U.S. branches, including through the use of FR 2052a data when applicable, and on- and off-site supervision.

vi. Existing supervisory oversight of the IHC by the Federal Reserve and additional oversight of the IDI subsidiaries by the OCC.

vii. Existing regulation, including the Federal Reserve's Total Loss-Absorbing Capacity ("U.S. TLAC") requirements imposed on the IHCs of G-SIB FBOs, which require appropriate levels of capital and long-term debt to support an orderly resolution that minimizes risk to the U.S. financial system, U.S. depositors, and U.S. taxpayers.

viii. Resolution plan requirements, which include liquidity modeling and prepositioning requirements applicable to FBOs' U.S. branches and agencies which are intended to minimize risk to the U.S. financial system, U.S. depositors, and U.S. taxpayers.

Given the existence of these regulatory and supervisory tools, coupled with a lack of evidence presented by the Agencies that the tools are not adequate to address concerns about liquidity at U.S. branches of FBOs, new U.S. liquidity regulations for U.S. branches of FBOs, whether standardized or otherwise, are not needed to preserve the safety and soundness of individual institutions and safeguard U.S. financial stability. Rather than establishing new branch liquidity regulations, any final version of the Proposal should tailor requirements only for IHCs, based solely on the characteristics of IHCs, and otherwise consistent with the comments in this letter.

Nevertheless, we recognize that the Agencies may decide to establish new, standardized liquidity requirements for FBO branches and agencies. Any proposal to establish branch-specific liquidity requirements should, at a minimum:

(i) Be preceded by a robust quantitative and qualitative analysis setting forth the need for such a proposal, including detailing why current home- and host-country regulatory and supervisory tools are insufficient to address the Agencies' concerns, and detailing any adverse impact on liquidity or financial stability;

(ii) Be preceded by extensive consultation with other U.S., non-U.S., and multilateral regulators in order to develop a consensus approach that will respect the ability of home-country regulators to supervise their institutions on a consolidated basis and not contribute to fragmentation of capital and liquidity or otherwise adversely impact financial stability;

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[27] See 12 C.F.R. § 252.157.

(iii) Ensure that the scope of such requirements is appropriately tailored, including by deferring to comparable home-country requirements, including those requirements that apply to FBO's U.S. branches;

(iv) Calibrate any U.S.-specific branch liquidity requirements, if deemed necessary, based solely on the attributes of the branch, not the FBO's CUSO;

(v) Remove other requirements that would be rendered duplicative by a standardized approach, such as the current Regulation YY liquidity buffer; and

(vi) Adopt modified or revised LCR, as other collateral like CED accounts already provide some protection to the Agencies.

It also bears mentioning that the Proposal, by imposing new liquidity requirements on IHCs on the basis of CUSO traits, could have the effect of prompting comparable requirements on U.S. banks' operations outside the U.S. Such a reaction could in turn contribute to greater fragmentation of liquidity on a global basis, which ultimately could adversely impact the availability of credit in the U.S. and negatively impact the ability of global firms and their regulators to manage liquidity risks efficiently.[28]

6. Related Matters

a. SCCL

As previously stated, the Proposal would apply capital, liquidity, and other risk management requirements on an IHC based not on the IHC's characteristics, but rather on the characteristics of the CUSO. This framework includes SCCL. Applying SCCL in this manner is particularly inappropriate given that covered FBOs' CUSO must separately comply with SCCL requirements or, in the alternative, with equivalent home-country standards. Therefore, potential SCCL-related risks presented by an FBO's CUSO to its IHC are addressed by existing provisions in the SCCL rule and the IHC should be evaluated based solely on its own characteristics.

Accordingly, rather than requiring the IHCs of Category III FBOs to comply with standards that currently apply only to IHCs and BHCs with more than $250 billion in total consolidated assets, we respectfully suggest that the Federal Reserve exempt IHCs with less than $250 billion in assets from SCCL requirements, consistent with its treatment of U.S. domestic BHCs of the same size. In the alternative, the Federal Reserve should mirror the Proposal's approach to capital regulation by including only IHC characteristics for application of SCCL requirements,

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[28] See "FSB Report on Market Fragmentation", June 4, 2019, at 1, https://www.fsb.org/wp-content/uploads/P040619-2.pdf ("Other types of market fragmentation may reduce the resilience of both global and domestic financial systems. This might be the case where fragmentation limits opportunities for cross-border diversification and risk management, impairs market liquidity or prevents capital and liquidity from being channeled to where it is needed in periods of stress. Such market fragmentation may reduce the efficiency of cross-border investment and risk management, and thereby increase costs faced by end investors through inefficient resource allocation.")

and preserve the present SCCL treatment for IHCs with less than $250 billion in total consolidated assets. This approach would exclude for these IHCs (i) using tier 1 capital (rather than capital surplus and stock) as a base, and (ii) applying the complex and burdensome economic interdependence and special purpose vehicle look-through requirements.

If the Federal Reserve instead retains its proposed approach to SCCL for Category III IHCs, we request that the Federal Reserve provide significant transition relief for these IHCs, given the substantial increase in compliance burdens that they could face.

b. RSF

In light of the Proposal, the Federal Reserve should consider further tailoring the calibration of the RSF. FBOs generally are already subject to heightened liquidity requirements at the global consolidated level. We urge the Federal Reserve to prioritize an analysis of the RSF's impact on the U.S. operations of FBOs to ensure that it takes into account comparable home country standards, and better balances the interest of pre-positioning of liquidity resources in the U.S. with that of preserving the flexibility to deploy liquidity resources globally.[29]

c. Consistency Among Regulation, Regulatory Reporting, and Supervisory Instructions

Once the Proposal is finalized, we would respectfully request that any supervisory instructions and regulatory reporting form instructions conform, to the extent possible, to the scope of the final regulation and any other relevant regulations. This outcome will help ensure greater consistency among regulatory, reporting and supervisory standards; greater consistency among comparable institutions in terms of requirements; greater transparency; and enhanced reporting efficiency.

d. Transition Period

We respectfully request that the Agencies provide adequate transition periods to allow FBOs and their IHCs to satisfy any new requirements established by the Proposal once finalized. We also request that any FBOs required to shift between categories be permitted to do so on a trailing four-quarter average basis, rather than the one quarter provided by the Proposal.

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[29] See U.S. Department of Treasury, A Financial System that Creates Economic Opportunities--Banks and Credit Unions (June 2017) at 13 (recommending delay of domestic implementation of RSF until it can be appropriately calibrated and assessed in light of the additional regulatory burden on top of existing liquidity requirements); see also Federal Reserve Board Vice Chairman for Supervision Randal K. Quarles, "Trust Everyone--But Brand Your Cattle: Finding the Right Balance in Cross-Border Resolution, "Ring-Fencing the Global Banking System: The Shift towards Financial Regulatory Protectionism," Harvard Law School, Cambridge, MA (May 16, 2018) ("Flexibility, or the ability to allocate capital and liquidity to different parts of the group on an as-needed basis, helps to meet unexpected demands on resources and reduces the risk of misallocation and inefficient use of resources.").

Thank you again for the opportunity to comment on the Proposal. We stand ready to provide any additional information that would be useful to the Agencies as they work to finalize the Proposal.

Sincerely,

[redacted]

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