American Bankers Association
Building Success. Together.

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Secretary
Board of Governors of the Federal Reserve System
Eccles Board Building
20th and C Street, N.W.
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Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, S.W., Suite 3E-218
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Re: Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Certain of Their Subsidiary Insured Depository Institutions; Total Loss-Absorbing Capacity Requirements for U.S. Global Systemically Important Bank Holding Companies

Ladies and Gentlemen:

The American Bankers Association[1] (ABA) appreciates the opportunity to comment on the agencies' proposal amending the enhanced Supplementary Leverage Ratio (eSLR) and Total Loss-Absorbing Capacity (TLAC) requirements for large banks identified as global systemically important banks (the Proposal). ABA supports the agencies' Proposal to adjust the eSLR requirements to address the disproportionate impact of risk blind measures such as leverage capital and ensure that the eSLR operates as a robust backstop. We further support proposed conforming changes to the TLAC requirements.

ABA has long supported efforts to refine and improve the regulatory capital framework for banks so that the capital structures are more effective in achieving their important prudential supervision and bank management purposes. In 2014, the banking agencies adopted a final eSLR rule that substantially increased the leverage capital requirements for eight large U.S. banking organizations. The stated intent of the agencies was to maintain the role of the leverage ratio as a backstop, an essential function, which we support. For some institutions, however, that formulation of the eSLR proved in practice to be the governing or controlling constraint. Thereby, as currently calibrated, the eSLR rule creates incentives for banks to reduce

[1] The American Bankers Association is the voice of the nation's $17 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $13 trillion in deposits and extend nearly $10 trillion in loans.

participation in lower risk and lower-return businesses by increasing the costs of participation—pressing against or exceeding the returns from such instruments. These include instruments such as secured repo financing, central clearing services for market participants, and even taking deposits. The proposed recalibration would operate to alleviate many of these problems based on today's balance sheets.

ABA notes that there are other methods to avoid the potential negative outcomes that the Proposal is intended to redress. For example, in the past ABA has argued that assets that do not pose a risk to the institution, such as reserves on deposit at the Federal Reserve, should be excluded from total leverage ratio calculations. Furthermore, we have advocated that margin posted by clients to Futures Commission Merchants should offset the leverage exposure measure.[2] These type of assets and activities simply do not increase risk to banks, risk that capital is intended to guard against. Even if the agencies finalize the Proposal, they should consider excluding such riskless assets and activities from the leverage ratio calculations for all banks. We emphasize, in this respect, that the supplementary leverage ratio denominator plays a prominent role in other regulatory standards, for example the surcharge methodology applied to global systemically important banks (GSIBs).

While we understand and recognize the use of the GSIB framework in the near-term for the recalibration of the eSLR, we believe that the GSIB framework should be reopened for comment and holistically reviewed. The current design of the GSIB framework does not reflect significant post crisis reforms that including TLAC, capital requirements, liquidity requirements, margin requirements, to name a few. While the GSIB framework is being reconsidered, the recalibration of the eSLR should be based only on the Method 1 calculation, rather than the Method 2 calculation, to ensure a competitive balance and level playing field.

Responses to selected questions

Question 6: *Would it be more appropriate to apply the eSLR standard to a covered Insured Depository Institution (IDI) as a capital buffer requirement, rather than part of the PCA "well capitalized" threshold?*

At the IDI level, the eSLR standard should be applied as a capital buffer requirement rather than part of the PCA "well capitalized" threshold. By applying the eSLR standard as a buffer at the IDI level, IDI and holding company standards would be harmonized, promoting effective capital management across a consolidated institution and ensure that regulators have the flexibility they need should an IDI's capital levels decrease. The payout restriction of a buffer would also act as a type of "early warning" threshold that should trigger changes in capital management before the more severe consequences of PCA limitations apply.

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[2] See letter to U.S. regulators dated June 14, 2014 (available at: https://www.aba.com/Advocacy/commentletters/Documents/LeverageRatioLetter.pdf) and letters to the Basel Committee dated March 17, 2014 and September 20, 2013 (available at: https://www.aba.com/Advocacy/commentletters/Documents/JointTradesLettertoBCBSreLeverageRatios-3-17-14.pdf and https://www.aba.com/Advocacy/commentletters/Documents/GFMAJointTradesBaselIIILeverageRatioCommentLetter.pdf respectively)

Question 9: *Should the Board modify the requirement that a GSIB maintain an external loss-absorbing capacity amount that is no less than 7.5 percent of the GSIB's total leverage exposure?*

The Board should reassess the need for a GSIB to maintain an external loss-absorbing capacity amount that is no less than 7.5 percent of the GSIB's total leverage exposure. ABA fully supports the Board's proposed recalibration of the TLAC leverage buffer. However, we also encourage the Board to revise lower the 7.5 percent minimum to align better with the international Financial Stability Board standard of 6.75 percent. While ABA supports the proposed recalibration of the long-term debt (LTD) leverage requirement, the Board should reassess whether separate LTD minimums are needed given the robust resolution planning processes in place at large U.S. banking organizations.

ABA appreciates the opportunity to comment on this proposal. Once the Economic Growth, Regulatory Relief and Consumer Protection Act becomes law, we may have additional comments within the extended comment period. If you have any questions about the content of or issues addressed in this letter please contact the undersigned, Hugh Carney, at (202) 663-5324.

Sincerely,

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