

July 17, 2019

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

The Honorable Joseph Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

The Honorable Randal K. Quarles
Vice Chairman for Supervision
Board of Governors of the Federal Reserve System
Eccles Board Building
20th and C Street, N.W.
Washington, D.C. 20219

Re: Permit Early Adoption of Final Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996

Dear Chairman McWilliams, Comptroller Otting, and Vice Chairman Quarles:

The American Bankers Association and the undersigned state bankers associations welcome the efforts of the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System to simplify the generally applicable risk-based capital standards, particularly the Agencies' work to address unnecessary complexity and provisions that needlessly inhibit economic growth or constrain banks in fulfilling their core functions in service to their customers. We view the Agencies' final rule, entitled "Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996" (Simplification Rule), as an important early step to achieving a simpler and improved regulatory capital framework. It is important to many of our member banks. We request that the Agencies allow banks to engage in early adoption of the Simplification Rule prior to the April 1, 2020, effective date.

Over the last two decades, the regulatory capital framework has grown more complex than it needs to be for the financial stability or supervisory value it provides. On October 27, 2017, the Agencies initiated a first change in regulation to rectify the problem by their proposal to

simplify the capital rules for non-advanced approaches banks. However, after the comment period closed on December 26, 2017, the proposal sat unfinished for a year and a half. On July 9, 2019 the Agencies finally approved the Simplification Rule.

The regulatory deduction provisions are among the more complex aspects of the Basel III final rule. Generally, the provisions include an individual deduction threshold set at 10% of common equity tier 1 (CET1) as well as an “aggregate deduction threshold” for various groups of assets set at 15% CET1. The combination of individual and aggregate deduction thresholds is unnecessarily complex and unwieldy, particularly for our community banks. For example, the final rule includes a sixteen box flow chart for the treatment of investments in the capital of unconsolidated financial institutions. Such complexity offers little value for bank supervisors or bank management. The Simplification Rule amends Basel III by eliminating the 15% deduction limit and raising individual deduction thresholds for mortgage services assets, investments in the capital instruments of unconsolidated financial institutions, and deferred tax assets resulting from timing difference, from 10% to 25%.

While the finalized Simplification Rule streamlines the regulatory deduction treatment, the overall benefit is delayed by an April 1, 2020, effective date. This delayed effective date is an added frustration, considering that our member banks have been waiting for this relief since 2017. We encourage the banking agencies to allow for more immediate benefits to banks and their customers by permitting institutions to opt for early adoption of the Simplification Rule before the rule’s April 1, 2020, effective date. We believe that such a technical amendment could be made prior to the rule’s publication in the Federal Register.

If you have any questions about these comments or would like to discuss the matter further, please contact Hugh Carney at hcarney@aba.com or 202-663-5324.

Sincerely,

American Bankers Association
Alabama Bankers Association
Alaska Bankers Association
Arizona Bankers Association
Arkansas Bankers Association
California Bankers Association
Colorado Bankers Association
Connecticut Bankers Association
Delaware Bankers Association
Florida Bankers Association
Georgia Bankers Association
Hawaii Bankers Association
Idaho Bankers Association
Illinois Bankers Association
Indiana Bankers Association
Iowa Bankers Association
Kansas Bankers Association
Kentucky Bankers Association
Louisiana Bankers Association
Maine Bankers Association
Maryland Bankers Association
South Dakota Bankers Association
Tennessee Bankers Association
Texas Bankers Association
Utah Bankers Association
Vermont Bankers Association
Virginia Bankers Association
Washington Bankers Association
West Virginia Bankers Association
Wisconsin Bankers Association
Wyoming Bankers Association

Massachusetts Bankers Association
Michigan Bankers Association
Minnesota Bankers Association
Mississippi Bankers Association
Missouri Bankers Association
Montana Bankers Association
Nebraska Bankers Association
Nevada Bankers Association
New Hampshire Bankers Association
New Jersey Bankers Association
New Mexico Bankers Association
New York Bankers Association
North Carolina Bankers Association
North Dakota Bankers Association
Ohio Bankers League
Oklahoma Bankers Association
Oregon Bankers Association
Pennsylvania Bankers Association
Puerto Rico Bankers Association
Rhode Island Bankers Association
South Carolina Bankers Association