American Bankers Association
Building Success. Together.

Rob Nichols
President and CEO
202-663-7512
rnichols@aba.com

October 9, 2018

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: Safety and Soundness Principles of Regulation for Regional Banks

Dear Vice Chairman Quarles:
Randy

We appreciate your prompt attention to the provisions in the Economic Growth, Regulatory Relief and Consumer Protection Act regarding considerations relevant to safety and soundness regulation of bank holding companies with total consolidated assets of more than $100 billion.

Your recent testimony before the Senate Banking Committee, which builds upon your remarks at ABA's Summer Leadership Meeting, presage the Federal Reserve's plans to propose for public comment its views on what those considerations should include and how they may be applied. The importance of this program has generated careful and considered discussion among our members who would be directly affected by this safety and soundness program. That review has been very productive and has prompted us to memorialize our thoughts and share them with you. We hope that the attached set of principles will be useful in developing the application of successful safety and soundness regulation.

We look forward to the release of the Federal Reserve's proposal. It would be hard to overemphasize the importance of the work to refine prudential supervision so that it is even more effective both for supervisors and for the success of bank management in serving our customers and promoting economic growth.

Sincerely,

Rob Nichols

Rob Nichols

Attachment

cc: Comptroller Joseph M. Otting
Chairman Jelena McWilliams
Craig S. Phillips, Counselor to Secretary Mnuchin

Safety and Soundness Principles

For Supervision of

Regional Banks

October 2018

Supervision for these banks begins with the recognition, based upon objective criteria, that these banks do not present risk to the U.S. financial system; prudential supervision for these banks should be designed and applied as appropriate to address safety and soundness concerns, not systemic risk concerns.

A. Value Added. Successful safety and soundness supervision ensures that regulations and supervision add value, measured by the extent to which they facilitate the strength and ability of banks to serve their customers, particularly over the long term.

B. Clearly Articulated Objectives. Supervision and regulations should have clearly articulated objectives directly related to safety and soundness, calibrated and plainly connected to the risks to be addressed, developed in a transparent manner.

- Streamlined. Supervision should be streamlined within a framework that addresses as directly as possible firm-specific risks.
- Foster Heterogeneity. Regulatory requirements should foster, not inhibit, the heterogeneity of the banking industry, including diverse approaches to and dynamism in product and service innovation and delivery.
- Adaptable. Supervision and regulation should not be so prescriptive that they cannot be adapted to the management processes and principles involved at different banking organizations.

C. Calibrated to the Risks. Supervision and regulations should be calibrated and scoped to the risks intended to be addressed as presented in the risk profiles of each individual institution and its activities.

- All Relevant Risks (not just Size). Supervision and regulations should be designed to incorporate a full recognition of all of the relevant risks related to the safety and soundness objectives, not focused on only one particular criterion (such as asset size).

- Role of Temporary Adjustments. Temporary changes in frequency and timelines, reporting requirements, and other adjustments related to transitions can have their value, but they should not take the place of—or effectually frustrate—substantive supervisory calibration and customization.

- Avoid Cliff Effects. Regulatory requirements should be graduated in application so as not to create cliff effects where a change in one variable dramatically impacts a bank's regulatory environment.

D. Applied to All Tools of Supervision. The supervisory and regulatory program should extend to all relevant elements and tools of safety and soundness supervision (e.g. rules, guidance, examination, and reporting) in a coordinated fashion.

E. Periodically Reassessed. Supervisory and regulatory requirements should be periodically reassessed for relevance to their objectives and the extent to which they meet those objectives in an appropriately customized fashion.

F. Preserve National Treatment. The Federal Reserve established the intermediate holding company framework to subject the U.S. operations of international banks to the regulatory requirements applied to domestic bank holding companies. National treatment has been a U.S. bank regulatory policy for some 40 years, and with comparable regulatory frameworks for IHCs and BHCs there is no reason to depart from this approach. The safety and soundness program should focus on U.S. assets of international banks and be careful to preserve national treatment for all institutions operating in the U.S.