American Bankers Association
Building Success. Together.

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June 20, 2017

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Mr. Keith Noreika
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

The Honorable Janet L. Yellen
Chair
Board of Governors of the Federal Reserve System
Eccles Board Building
20th and C Street, N.W.
Washington, D.C. 20219

Re: Changes to U.S. Regulatory Capital Framework; Pause in Basel III Transition Periods

Dear Chairman Gruenberg, Chair Yellen, and Acting Comptroller Noreika:

The American Bankers Association[1] (ABA) requests that the Agencies pause the Basel III transition period until projected amendments to the risk-based capital standards can be promulgated. The Basel III capital rule, which was finalized in 2013, included a multi-year transition period that phases in certain aspects of the rule. During the transition period, banks will phase in the deduction requirement for the amounts of Mortgage Servicing Assets (MSAs), timing difference Deferred Tax Assets (DTAs), and holdings of regulatory capital instruments issued by financial institutions that exceed the 10 percent of common equity. Although currently deducted at a rate of 80%, these deductions are scheduled to be fully phased in by 2018.

In March 2017, the banking agencies submitted a joint report[2] to Congress as required by the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA). As part of the EGRPRA report, the Agencies stated that,

> The regulatory capital rules are too complex given community banks' size, risk profile, condition, and complexity. The agencies therefore are developing a proposal to simplify the regulatory capital rules in a manner that maintains safety and soundness and the quality and quantity of regulatory capital in the banking system.

[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 more than $9 trillion in loans.

[2] Joint report available at: https://www.ffiec.gov/pdf/2017_FFIEC_EGRPRA_Joint-Report_to_Congress.pdf.

The EGRPRA report further states that "amendments likely would include… simplifying the current regulatory capital treatment for MSAs, timing difference DTAs, and holdings of regulatory capital instruments issued by financial institutions..." These changes were recently further encouraged by the Treasury Secretary's report to the President regarding regulatory reform, which states in relevant part, "Regulators should simplify and improve the calculation of capital requirements for MSAs."[3] This recommendation is in keeping with the concern that regulatory factors "unnecessarily restrict the range of choices and options" for bank customers. Treasury recommends recalibrating capital requirements that place an undue burden on individual asset classes, such as MSAs, to increase lending capacity while maintaining safety and soundness.[4]

ABA appreciates both the intentions expressed in the EGRPRA report and in the Secretary's report to the President. We share the view that regulatory capital standards are more complex than necessary for the intended prudential supervisory value, and we are pleased that the Agencies are considering simplification efforts. This is an appropriate time to consider the effectiveness of prudential supervision standards implemented in recent years, with a view toward how they can be improved. In light of the Agencies' announced active consideration of amending the capital treatment of these exposures, ABA believes it is appropriate to pause the current transition period until simpler rules are finalized.

Thank you very much for considering these issues. If the Agencies would like additional information regarding these comments, please contact Hugh Carney, at 202-663-5324 (hcarney@aba.com).

Sincerely,

Bob Nichols

[3] See page 127 of Treasury report titled "A Financial System That Creates Economic Opportunities" released June 2017, available at: https://www.treasury.gov/press-center/press-releases/Documents/A%20Financial%20System.pdf.

[4] Id, page 13.