

June 25, 2018

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
Eccles Board Building
20th and C Street, N.W.
Washington, D.C. 20551

Re: Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules

Ladies and Gentlemen:

The American Bankers Association¹ (ABA) appreciates the opportunity to comment on “Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules” (the Proposal). We agree that 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 simpler, more transparent and efficient.

Ensuring that the banking sector has adequate levels of high quality capital is key to the safety and soundness of the banking system and economy as a whole. Fortunately, the U.S. banking industry is exceedingly well capitalized. Less salutary, capital regulation for U.S. banks is far more complex than needed to achieve that supervisory result. ABA commends the Federal Reserve’s efforts to simplify capital and stress testing standards to make them work better for banks, supervisors, and ultimately bank customers that need and use banking products and services.

We view the Proposal as an important advance to reaching these ends. We support the basic concept of the integration of the spot and stress capital frameworks to align regulation and supervision more closely with the way banks actually manage their capital requirements. Moreover, we note that the proposed changes to balance sheet and capital distribution assumptions better reflect actual bank practices in times of stress.

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 nearly \$10 trillion in loans.

ABA also is supportive of the concept of the stress buffer framework set forth in the Proposal. We would point out, however, that certain aspects of the Proposal would serve to frustrate the achievement of broader agency goals. In addition to other items listed in this letter, the following changes would improve a final standard. The Federal Reserve should—

- Take steps to limit the volatility of any stress buffer requirements and improve transparency around the stress testing program;
- Further streamline the capital planning process to maximize its utility without creating a new *de facto* capital constraint; and,
- Revisit the capital surcharge for Globally Systemically Important Banks (GSIBs).

While the Federal Reserve has pursued a variety of proposals to improve the efficiency and transparency of the stress testing framework, there have been significant legislative developments as well – specifically, the passage of The Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155). The final standard should give effect to the principles underlying that legislation, with regard to scope of application, tailoring, and simplification, among others. Specifically, S. 2155 provides that bank holding companies (BHCs) with less than \$100 billion in total consolidated assets are immediately excluded from mandated programs of stress testing, and BHCs with total consolidated assets between \$100 billion and \$250 billion may be excluded from certain stress tests within 18 months from enactment, thereafter subjected to “periodic” stress testing instead. We expect the Federal Reserve will conform the final standard to the purposes of the new statutory provisions, as well as consider and address the statutory authorization in S. 2155 to reduce the regulatory burden of obsolete processes or unnecessary components within the stress testing framework, such as the elimination of the required adverse scenario and mid-year stress tests.

I. The Federal Reserve should take additional steps to increase transparency and limit the inherent volatility of the stress buffer framework

Effective capital management is a multi-faceted, forward looking process that looks at the near, medium, and long term. Banks make decisions about sources and uses of capital based on multiple market, regulatory, legislative, and internal considerations and constraints. The Comprehensive Capital Analysis and Review (CCAR) process added significant challenges to the capital management process due to the opacity and year-over-year volatility of the Federal Reserve’s models, assumptions and scenarios. While the risks of volatility and uncertainty in CCAR scenario design and Federal Reserve model results are not new, their integration into day-to-day capital requirements intended to facilitate the ability of banks to meet customer and market needs and risks makes addressing these lingering concerns and incorporating the stress testing into effective bank management even more critical.

a. The basis for prudential standards should not be secret

ABA has long been concerned about the opaque nature of the stress testing program, as the stakes for both banks and the economy are high. Surprise is not an element of good bank supervision anymore than it is valuable for bank management. Effective communication is superior for better supervision and better banking.

Since its integration into the regulatory framework, the stress testing process and results have directly affected the extent to which banks' extend credit and financing to the broader economy as well as the economic return investors in banks are able to achieve. Unlike most capital requirements, the administrative details of the stress testing program – particularly related to supervisory models, the development of the scenarios, and the standards of the qualitative review (see Section VI for discussion) – have never been exposed to the public for review and comment. This lack of transparency has been of concerning, and unfortunately and unnecessarily the Proposal greatly exacerbates these concerns as (i) *point in time* capital requirements are now based on stress test results, and (ii) these results can and do fluctuate significantly year over year. If left unaddressed, these concerns will operate to frustrate longer term business planning and capital management, undoubtedly forcing an increase in the amount banks choose to hold *above* the regulatory requirements, resulting in less efficient use of capital to promote economic growth.

b. Recommendations to increase transparency and limit volatility

The Federal Reserve should publish scenarios for notice and comment and should consider guardrails around scenario severity.

As proposed, the additional stress buffer will most likely become the binding constraint for many banks. As a result, the Federal Reserve's severely adverse scenario used to calculate a firm's stress buffer requirements will effectively dictate a significant component of a bank's day-to-day capital requirements.

In order to improve transparency, and thereby the quality of the exercise, the Federal Reserve should publish the supervisory scenarios, including the Global Market Shock (GMS), for at least a 30-day public notice and comment period in the fourth quarter prior to the start of each stress capital buffer cycle. The notice should include a narrative that will give firms, market participants, and the public the opportunity to comment on the coherency of the scenario. We note that both the GMS and macroeconomic scenarios should be coherent individually and together.

In addition, the public notice should also include the overall severity of the scenarios, measured by a well-defined and quantifiable severity framework. This framework could be based on long-term historical market and macroeconomic data while also providing flexibility for the Federal Reserve to consider current market and macroeconomic conditions. Under such a framework, historical recessionary experiences could be used to calibrate both a target overall severity as well as set outer boundaries, or "guardrails," on the magnitude of changes to the specific variables utilized by the Federal Reserve in the supervisory scenarios. In essence, the framework would serve to demonstrate empirically why the Federal Reserve's severely adverse scenario is plausible grounded in experience, such as from historical recessionary periods. Such a framework, coupled with public notice and comment on individual scenarios, would improve the transparency and address the risk of volatility of the Federal Reserve's stress testing scenario design as well as assist in limiting volatility in firms' stress buffer requirements.

For practical compliance, the notice and comment period for the scenarios should be set by the Federal Reserve such that the scenarios can be finalized and provided to the banks by the first business day in January.

The Federal Reserve should expand disclosures, and publish its models for notice and comment.

As noted in past ABA submissions, the proposal titled, “Enhanced Disclosures of the Models Used in the Federal Reserve’s Supervisory Stress Test,” takes the important first step of proposing to disclose certain loan loss information. However, banks and market participants would still have no insight into most relevant factors in the supervisory stress test. To improve the quality of the supervisory stress test projections, the enhanced modeling disclosures should be expanded beyond loan-loss models. Similar to the request to expose supervisory scenarios for public comment, the Federal Reserve should publish for notice and comment the design and assumptions of its supervisory models in the fourth quarter prior to the start of each stress capital buffer cycle, with final publication by the first business day of January.

Specifically, pre-provision net revenue (inclusive of the bifurcation of operational risk losses), the GMS, balance sheet projections, depletion assumptions, and net interest income/non-interest income and expenses should all be considered for disclosure. Additional information would not jeopardize the integrity of the Federal Reserve’s models or precipitate increased concentration risk or regulatory gamesmanship. Rather, the increased disclosure would allow for more effective feedback between the private sector and regulators, with additional positive externalities for financial markets as they gain a better understanding of the risks facing the financial sector. As an example, and as we noted in past ABA submissions,² the request for suggestions about the incorporation of a short-term wholesale funding shock cannot be contemplated without an understanding of what assumptions are already incorporated within existing models. Increased transparency would improve the quality of the Federal Reserve’s models while allowing firms and other market participants to understand the basis of the stress testing projections, which would become an integral part of point-in-time capital requirements under the Proposal.

New stress buffers should apply on a delay.

The initial effective date for a firm’s stress buffer requirements should be extended to July 1, 2020, with any applicable annual increases to firms’ stress buffer requirements effective the following July 1 thereafter, and decreases taking effect immediately. A one-year timeline is essential, as it enables firms to increase capital gradually if required without surging the capital markets in a very tight timeframe if issuance by affected banks becomes necessary. Conversely, it also allows excess capital to be immediately employed to promote economic growth. We note that this approach is similar to the Federal Reserve’s existing effective time periods for the GSIB surcharge.

² See ABA letter filed January 22, 2017 available at: <https://www.aba.com/Advocacy/commentletters/Documents/cl-TransparencyProgram01222018.pdf>.

The Countercyclical Capital Buffer should be removed.

The countercyclical capital buffer is a signal example of how the Federal Reserve’s efforts to be “Basel compliant” lead to redundancy. The countercyclical capital buffer should be removed from the capital framework, because *both* the countercyclical capital buffer and the stress testing scenarios are intended to operate in a countercyclical nature. Historically, and under the Proposal, *multiple elements* of the stress testing framework are countercyclical in nature. For example, applying a stress capital buffer based on flooring the U.S. unemployment rate at a stressed level while the U.S. economy improves is countercyclical. Without explanation for public consideration and comment of what risks the countercyclical capital buffer is addressing that are not *already addressed* by the stress capital buffer, the addition of a countercyclical capital buffer could unnecessarily tie-up bank capital and overstate stressed capital requirements. We believe that the Proposal’s stress capital buffer framework without inclusion of the Countercyclical Capital Buffer would be consistent with the Basel Committee objective of achieving the implementation of comparable standards in member countries, because counter cyclicity is already addressed through the robust U.S. stress testing regime.

Moreover, we encourage U.S. regulators to reassess and reform the Basel Committee’s Regulatory Capital Assessment Program (RCAP). Given the robustness of U.S. capital requirements, the RCAP assessments of the comparability of individual aspects of U.S. capital requirements – which take an extremely narrow view of “compliance” – should be revised in assessing whether the U.S. standard meets the international standard. The overall capital levels produced by the U.S. standards should be considered, and where that overall level is higher than what would result from the international standard, that result should surely be deemed to be compliant, or super-equivalent, with the international standard.

II. With the adoption of stress buffer requirements, capital planning should be simpler and more efficient

The Proposal aims to streamline capital management practices by requiring that firms meet capital requirements that include prior CCAR cycle stress loss estimates in their spot regulatory requirements. The Proposal requires that firms continue to submit an annual capital plan to the Federal Reserve and that firms must, after taking all planned capital actions, meet applicable capital requirements under baseline conditions throughout the projection period. The Proposal, however, would place a number of impractical constraints on the baseline capital plan that would undermine its value as a capital planning tool.

Instead of achieving the Federal Reserve’s intended result of allowing banks to manage capital actions based on spot capital requirements, subject to the payout restrictions that already exist in the capital rules, the Proposal would effectively create a new capital constraint, the baseline projected ratio. The baseline projected ratio would place quantitative limitations on capital actions, including capital actions exceeding those in a firm’s baseline capital plan submission. As a result, the quantitative objection is essentially still effective, and capital planning is made *more* complex. The need for the Federal Reserve’s approval of each quarter’s capital actions should not be necessary, since the stress capital buffers embed the Federal Reserve’s stressed loss assumptions in the firm’s point-in-time capital requirements.

To increase the simplicity, transparency, and efficiency of the Federal Reserve's capital framework, the Federal Reserve should further harmonize its capital planning and stress buffer frameworks. While capital planning is a necessary and prudent exercise for all banking organizations, the adoption of a stress buffer framework should eliminate the need (i) for the Federal Reserve to conduct a quantitative assessment of each firm's capital plan, (ii) to limit capital actions under baseline or stress scenario projections, (iii) to apply a constrained capital plan resubmission process, and (iv) for firms to pre-capitalize four quarters of dividends as part of the calculation of the stress capital buffer. Instead, firms should be required to meet stress buffer requirements on an ongoing basis, and important element of the Proposals intention to promote simplification.

Firms would continue to submit capital plans to the Federal Reserve, as part of an internal capital planning process that is subject to board of director approval. This would properly return the responsibility for capital management and capital planning back to a firm's board where it belongs, while preserving the Federal Reserve's authority to enforce the limitations in the capital rule on distributions and discretionary bonus payments in the event a firm fails to maintain the full amount of its required capital buffers.

Accordingly, consistent with the underlying logic of the Proposal to institute a more dynamic capital regime and actually eliminate the quantitative objection, we recommend that capital planning requirements and processes be further simplified and harmonized in the following manner:

- On April 5, firms submit CCAR stress loss data and baseline capital plans to the Federal Reserve as part of the annual capital planning process.
- By June 30, the Federal Reserve provides firms with stress loss results that will determine the applicable stress buffers for the next annual cycle.
- A firm's board of directors takes into account the firm's overall capital requirements, including its new stress capital buffer (not including any pre-capitalized dividends), when making capital action decisions going forward. In the event of an increase in its stress capital buffer, a firm would revisit its planned capital actions among other factors and would adjust as needed to meet its capital ratios.
- Limits on capital distributions and additional capital distribution requests become unnecessary if the full capital requirements, including stress buffer requirements, are met. Capital distributions are restricted per the existing distribution limitations in the capital rules.

Were the Federal Reserve to insist on maintaining control over banks' capital plans based on the baseline scenario, banks would need to be allowed to make modifications to their capital plans to reflect real plans and numbers, including the full suite of actions that will be taken by the bank to adjust to dynamic conditions. For example, if the stress buffer released by the Federal Reserve is higher than a bank was expecting, then the firm will realistically curtail capital actions (such as share repurchases) and target risk-weighted asset reductions to prepare for the stress buffer's incorporation into the spot capital ratio. However, under the Proposal, such third quarter actions would not be allowed to be reflected in the firm's baseline plan resubmission. As a result, the

baseline capital ratio projected at the end of the third quarter in the firm's April 5th capital plan submission will most likely be less than the firm's actual third quarter ratio; yet capital actions would be limited by the baseline projected ratio rather than reality. Furthermore, if actual performance exceeds budgeted performance or if risk-weighted assets are lower than projected, bank capital actions should not be limited by the baseline capital plan submission, as that would lock up excess capital capacity.

III. Spot payout limitations are overly restrictive and inconsistent with the dynamic regime proposed

The Proposal effectively replaces the existing Basel III capital conservation buffer with the stress buffer framework. Doing so, however, subjects the stress buffer framework to the Basel III payout restrictions that apply in the event a bank's spot capital ratio dips below its capital requirements. Given how different the *dynamic* stress buffer framework is to the *static* capital conservation buffer, we believe it appropriate to revisit certain aspects of how the payout restrictions work. In particular, while the payout restrictions seem designed to increase gradually as a bank's capital ratio falls, in practice they more likely will cause cliff effects in a bank's ability to manage capital, even at high levels of capitalization.

a. The definition of eligible retained income should be aligned with the Basel definition

Under U.S. Basel III, payout restrictions are expressed as maximum payout percentages of a firm's eligible retained income. Thus, because the stress capital buffer can increase, a healthy bank paying out 100% of net earnings over four quarters would be suddenly precluded from *any* capital action. For example, if a bank had paid out 100% of its earnings in the prior four quarters, but its Standardized Common Equity Tier 1 ratio were 12.9% relative to a 13.0% total requirement (stress buffer plus minimum), the bank would be required to *halt payouts of every kind* in the following quarter. Such a dramatic outcome seems unreasonable when the bank is otherwise healthy.

b. If there is any requirement to prefund dividends as part of the stress buffer framework, payouts should not be limited until ratios dip below the portion of stress buffers derived from prefunded dividends

The revised distribution assumptions of the Proposal require continued payment of four quarters of common stock dividends and nine quarters of additional tier 1 dividends. If there is any requirement to pre-capitalize dividends, firms should not be required to reduce distributions to the extent they are within the pre-capitalized amount. This change would allow firms to maintain dividends even during times of stress to preserve market stability, consistent with the Federal Reserve's rationale for including this assumption in the Proposal.

c. The types of payouts subject to restriction should vary as capital levels fall

The Basel III payout restrictions would apply to discretionary dividends, repurchases, and executive compensation alike. However, as the Federal Reserve has acknowledged, evidence “indicates that repurchases are more flexible than dividends.”³ In times of stress, banks are much more likely to cut repurchases before dividends and executive compensation. To reflect this better, payouts should be restricted in a waterfall manner, such that while capital ratio levels are still high, only repurchases would be restricted, with dividends and executive compensation being restricted at lower levels. In fact, we believe that discretionary bonuses for executive officers should not be subject to payout restrictions, as such restrictions are duplicative to compensation clawback policies that are based on company performance, as set by independent boards of directors.

IV. The Federal Reserve should review and reassess implementation in the United States of the GSIB surcharge before including it in the stress buffer framework

The Proposal, which incorporates into the stress buffer framework the GSIB surcharge, raises questions about U.S. implementation of the GSIB surcharge and its role in ensuring a level playing field across banks headquartered in different jurisdictions. In 2015, ABA argued that the GSIB surcharge should not be adopted, because the United States has pursued significant regulatory reform efforts aimed at making large banks’ capital adequacy and liquidity risk positions more robust.⁴ The Proposal’s inclusion of the GSIB surcharge into the stress buffer framework highlights the need to reevaluate whether the surcharge is appropriately calibrated for that purpose.

We encourage expeditious adoption of the Proposal’s stress buffer framework. We do not believe that the GSIB surcharge need be or should be included in a stress buffer framework until the GSIB surcharge is reviewed and reassessed in light of its existing flaws and the significant improvements that have been made to the prudential regulatory framework.

V. The Federal Reserve should revisit whether any leverage ratios should be subject to any stress testing requirement

The Proposal would create an additional stress buffer referred to as the stress leverage buffer (SLB). We view the creation of the SLB as a significant improvement over the current evaluation that tests whether a bank’s post stress capital levels can meet minimum leverage ratio requirements. However, we question whether a leverage ratio should ever be included in any stress testing regime.

ABA opposes any stress testing regime that risks making a leverage ratio the binding capital constraint on a business-as-usual basis. As the agencies recognized in the eSLR proposal, “[l]everage capital requirements should generally act as a backstop to the risk-based requirements. If a leverage ratio is calibrated at a level that makes it generally the binding

³ 83 Fed. Reg. 18165-18166 (April 25, 2018).

⁴ Letter available at: <https://www.aba.com/Advocacy/commentletters/Documents/GSIB-Surcharge-Comment-Letter.pdf>.

constraint through the economic and credit cycle, it can create incentives for firms to reduce participation in or increase costs for low-risk, low-return businesses.”⁵ While we view the SLB as a significant improvement, in order to simplify and reduce adverse incentives further, the Tier 1 leverage ratio should be removed from the current post-stress minimum requirement and should not have the SLB added to it.

VI. The qualitative objection should be eliminated and instead made part of the ongoing supervisory process

The Proposal retains license for the Federal Reserve to object to a capital plan for qualitative reasons for banks with \$250 billion or more in total consolidated assets. In discussing the qualitative assessment in a 2016 report, the Government Accountability Office found that the Federal Reserve, “has not disclosed information needed to fully understand its assessment approach or the reasons for decisions to object to a company’s capital plan. Transparency is a key feature of accountability and this limited disclosure may hinder understanding of the CCAR program and limit public and market confidence in the program and the extent to which the Federal Reserve can be held accountable for its decisions.”⁶ Including qualitative elements in the stress capital buffer framework, especially given its inherent reliance on hypothetical predictions, raises the unwelcome specter of arbitrary regulatory action.

The Federal Reserve recently made a convincing case that the qualitative elements of stress testing add little to no value for banks with less than \$250 billion in assets and ratified that change in regulation. The Federal Reserve has continually failed to make a compelling case for applying qualitative elements to the capital plan of any banks. Qualitative issues are already addressed by supervisors as part of the normal, comprehensive bank examination process. The Federal Reserve should remove the qualitative assessment in the stress test framework for all banks.

VII. The Capital impact of a merger or acquisition should be excluded from the calculation of the stress capital buffer

While a merger or acquisition has the potential to change the risk profile of a firm, and likely changes to the risk profile should be evaluated in the stress framework, the day-one capital impacts of a merger or acquisition should be excluded from the stress capital buffer calculation. Including day-one impacts of a merger or acquisition in the stress buffer calculation essentially requires a firm to hold double the expected capital impact in a baseline environment. Assuming no share issuances, a firm under current practice must pre-fund an acquisition by increasing capital levels prior to the close of the acquisition to remain above baseline requirements. However, if those impacts are also included in the stress buffer calculations, the full impact would already be reflected in baseline capital requirements, causing a firm to double the capital it must hold for the same merger or acquisition event. As a result, prefunding for merger or acquisition should be excluded from the capital reduction under stress.

⁵ eSLR Proposal, at 11.

⁶ U.S. Government Accountability Office. (2016, November), Additional Actions Could Help Ensure the Achievement of Stress Test Goals, Publication No. GAO-17-48, see at <https://www.gao.gov/products/GAO-17-48>.

VIII. The Federal Reserve should recognize employee stock issuances as equity during the supervisory stress scenarios

Under the Proposal, firms would be required to recognize the expense of employee stock issuances through pre-provision net revenue. However the same stock issuances would not be recognized as equity due to the Proposal's simplifying assumption to remove most capital actions from the supervisory stress scenario. This is irreconcilable from an accounting perspective, not to mention a counterintuitive penalty for equity compensation relative to cash. The Federal Reserve should amend the Proposal so that employee stock issuances are reflected in a firms' equity during the supervisory stress scenarios.

IX. As expeditiously as possible, The Federal Reserve should conduct adequate impact analysis for U.S. intermediate holding companies (IHCs) of foreign banking organizations (FBOs)

We support the Federal Reserve adopting without delay its proposed simplifications to CCAR and balance sheet and capital distribution assumptions as aforementioned in this letter. In addition, the Federal Reserve should conduct a comprehensive quantitative impact analysis of the potential impact of the stress buffers on IHCs' required capital levels. In preamble discussion on the impact of the proposal, the Federal Reserve acknowledges that U.S. IHC subsidiaries of FBO "were excluded from this quantitative analysis" because they had not completed stress tests in previous cycles.

The stress buffer requirements would be calibrated primarily based on a CCAR firm's projected losses under the severely adverse scenario in the annual supervisory stress tests. Given the primacy of the supervisory models in determining stress buffers and that many IHCs are participating in publicly disclosed supervisory stress tests for the first time this year, it is impossible for IHCs to assess with any reasonable degree of accuracy at this point how IHC capital requirements would be affected by the stress buffers over time. IHCs have no relevant historical data to analyze in order to prepare for and mitigate the volatility that the stress buffers may introduce. IHCs may be forced to maintain outsized and inefficient operational buffers in order to ensure that they are prepared to meet the potentially sharp increases in the stress buffer requirements that may unexpectedly arise in an unfamiliar adverse stress scenario.

Moreover, even the 2018 CCAR results will provide limited insight once available, because they will not reflect the GMS component of the CCAR stress tests that does not become fully effective for six IHCs until the 2019 CCAR, and which can be reliably expected to increase projected stress losses for those IHCs and therefore increase stress buffer requirements. IHCs have not had experience in modeling these losses for a CCAR planning exercise and have no way of predicting how the supervisory models will affect their loss profile.

ABA notes that IHCs of FBOs are unique as a class and have significant diversity of business models within that class. A one size fits all approach is not appropriate in this context. For example, IHCs face fundamentally different structural considerations with respect to their

regulatory capital base and planning of capital actions. IHCs book assets, risk exposures, and revenue in a manner that can be structurally different from domestic BHCs. ABA understands that the Federal Reserve has had to modify certain of its model assumptions and methodologies with respect to IHCs as part of the 2018 CCAR exercise.

X. The Federal Reserve should consider making the Advanced Approaches optional and recognize that future Basel IV changes could impact the stress buffer framework

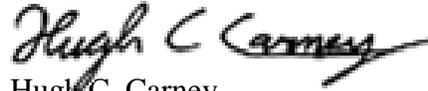
The Proposal adds a stress capital buffer to the Standardized Approach to calculating risk weighted assets for bank holding companies above \$50 billion in total consolidated assets. We support the Federal Reserve's exclusion of the stress buffer from the minimum capital requirements under the Advanced Approaches and continued exclusion of the Advanced Approaches from stress capital buffer. Because the calculation of risk-weighted assets under the Advanced Approaches already includes an expectation of downturn economic conditions, use of the Advanced Approaches in the stress buffer framework would introduce the risk of double counting stress conditions and would add unnecessary complexity into the capital framework.

For individual banks, we believe that the regulatory capital framework could be further simplified and the number of required ratios further reduced by making the Advanced Approaches optional. Banks that choose not to exercise and Advanced Approaches option would no longer need to manage to two separate frameworks that behave in unique ways throughout the economic cycle.

Furthermore, regulators need to recognize that changes may be made in the United States in connection with the Basel Committee's recently finalized Standardized Approach (Basel Standardized Approach). It is unclear how the U.S. banking agencies intend to adopt the Basel Standardized Approach and whether it will be part of any stress capital buffer. A number of questions remain to be addressed. When the Basel Standardized Approach was proposed, the U.S. banking agencies indicated it was designed for internationally active banks. Will domestic banks as small as \$50 billion in total consolidated assets be subject to the new approach? Will different size banks be applying different Standardized Approaches when calculating their stress capital buffers? How will any changes to risk weighted assets resulting from the Basel Standardized Approach be addressed in the stress capital buffer framework, as U.S. banks are already appropriately capitalized? How will the stress buffer framework consider the incorporation of the credit value adjustment and operational risk into the Basel Standardized Approach, since capital is already held for these risks under the stress testing framework?

ABA appreciates the opportunity to comment on this proposal. 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,

A handwritten signature in black ink that reads "Hugh C. Carney". The signature is written in a cursive style with a large, stylized "H" and "C".

Hugh C. Carney
Vice President of Capital Policy