American Bankers Association
Building Success. Together.

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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

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). As described in our comment letter submitted on May 21, 2018, ABA supports the agencies' Proposal to adjust the eSLR, and we encourage the agencies to move forward expeditiously in finalizing the Proposal. In addition, consistent with the Economic Growth, Regulatory Relief, and Consumer Protection Act (the Act), ABA supports additional amendments to exclude safe assets, such as central bank deposits and margin posted by clients to Futures Commission Merchants, from the definition of leverage exposure for all banks subject to the Supplementary Leverage Ratio. Such adjustments would ameliorate the likelihood that banks would be constrained from taking deposits in times of stress, but these changes would not diminish the operation of the Supplementary Leverage Ratio as a robust backstop.

[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.

ABA has long supported efforts to refine and improve the regulatory capital framework for banks so that it is more effective in achieving its 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. It was an explicit intent of the agencies at that time to maintain the role of the leverage ratio as a backstop, an essential function that we support. For some institutions, however, that formulation of the eSLR risked becoming in practice the governing or controlling constraint. Moreover, as currently calibrated, the eSLR rule creates incentives for banks to reduce participation in lower risk and lower-return businesses by increasing the costs of participation—pressing against or exceeding the returns from such businesses. These include instruments such as secured repurchase financing, central clearing services for market participants, and even taking deposits. The proposed reformulation would operate to alleviate the unintended consequence of constraining the provision of these banking services, important and useful to banks' commercial and retail customers.

On May 24, the President signed the Act into law. In part, the Act directs the banking agencies to exclude central bank deposits from the supplemental leverage ratio for certain banks. To promote a level playing field, the banking agencies should exclude central bank deposits from the definition of leveraged exposure for all banks subject to the Supplementary Leverage Ratio. Furthermore, the banking agencies should examine whether other assets or activities should be excluded from the definition of leverage exposure to permit the provision of banking services in times of stress, and to facilitate other policy goals of the post-recession regulatory framework. For example, in the past ABA has advocated that margin posted by clients to Futures Commission Merchants should offset the leverage exposure measure to be consistent with the policy decision to mandate central clearing of derivatives.[2]

Finally, while we understand and recognize the use of the GSIB surcharge in the near-term for the recalibration of the eSLR, we believe that, as a separate exercise, the GSIB surcharge should be reexamined and holistically reviewed. The current design of the GSIB surcharge does not reflect significant post-crisis reforms that achieve the same intended policy purpose of the GSIB surcharge—reducing the probability of default and systemic impact upon default of a GSIB. These post-crisis reforms include implementation of TLAC, heightened capital requirements, more rigorous liquidity requirements, and new margin requirements, to name a few.

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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/GFMAJointTradesBaselIIILeverageRatoCommentLetter.pdf respectively)

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,

Hugh C Carney

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