ICBA
INDEPENDENT COMMUNITY BANKERS of AMERICA®

March 9, 2015

Mr. Robert de V. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Risk-Based Capital Guidelines: Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on the proposed rule, *Risk-Based Capital Guidelines: Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies* (Proposal). ICBA supports establishing risk-based capital surcharges on the largest too-big-to-fail megabanks to ensure that they maintain sufficient levels of high-quality capital needed to weather significant distress or a financial crisis. Targeting the capital conservation buffer as the mechanism needed to raise minimum regulatory capital requirements on these megabanks is ideal as they will be prevented from making distributions of vital loss-absorbing capital at times when that capital is most urgently needed to mitigate the impact of heavy credit losses and prevent a taxpayer bailout.

ICBA also believes that the Federal Reserve has properly sourced the key metrics needed to identify those financial institutions that are not only globally systemically important but are vulnerable to a systemic bank failure -- particularly with the inclusion of short-term wholesale funding. This crucial liquidity measure, along with the size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity metrics, will add further protection to taxpayers and minimize future disruptions to the global financial system. ICBA applauds the Federal Reserve for not limiting the amount of any capital surcharge to be applied to one financial institution. Scaling the buffer to correspond with the established risk assessment methodology ensures that the surcharge

[1] The Independent Community Bankers of America®, the nation's voice for 6,400 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services. For more information, visit ICBA's website at www.icba.org.

assessed against any too-big-to-fail megabank appropriately provides increased taxpayer protection.

ICBA supports the proposed surcharge on too-big-to-fail megabanks as an extension of the capital conservation buffer in a scaled manner, which ensures that these institutions will be prevented from distributing capital to shareholders when it is most critically needed to protect against future credit losses. For 2015, eight financial institutions will be subject to surcharges ranging from 1.0% to 2.5%.

The Proposal

The Federal Reserve is proposing new capital requirements on the largest bank holding companies in the United States that have been identified as systemically important. Specifically, the Federal Reserve is applying a new capital surcharge by increasing the capital conservation buffer needed for top-tier bank holding companies with $50 billion or more in total consolidated assets that also qualify as globally systemically important when identified through predetermined calculated measures. As of the date of the proposal, eight financial institutions have been identified as meeting the criteria for the new capital surcharge. The capital surcharge would be phased in consistent with the start of the existing capital conservation buffer finalized under Basel III starting in 2016 with full adoption by the end of 2018.

The proposed framework established by the Federal Reserve is based on the methodology developed by the Basel Committee on Banking Supervision, which is subject to review every three years in order to stay current with the most crucial methods needed to assess systemic importance. Identification of systemically important top-tier bank holding companies would be based on two established scoring methods, with the higher of the two scores used to determine both when a capital conservation buffer surcharge applies and the amount of the surcharge. When risk-based capital levels fall below the level of the capital conservation buffer, these top-tier bank holding companies will be limited in their ability to pay dividends to shareholders, buy back capital stock, and pay certain types of bonuses to executives.

The first method uses size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity to assess systemic importance. The second method also uses the metrics of the first method except for substitutability, which is replaced with a measure for short-term wholesale funding based on the entity's average use of short-term wholesale funding sources over a calendar year. These categories are further broken out into systemic indicators that are assessed and weighted against the others when determining the total score. For example, the interconnectedness category contains three systemic indicators (intra-financial system assets, intra-financial system liabilities, and securities outstanding) that, when measured collectively, represent 20% of the total weighting. Once the overall score is calculated, a capital conservation buffer surcharge is applied based on the surcharge level associated with the score.

ICBA's Comments

ICBA supports the introduction of capital surcharges for the largest, interconnected, too-big-to-fail megabanks that pose an elevated risk to the domestic financial system in the United States, the global financial system, and the American taxpayer. These financial institutions, with their immense size, international scope and exposure, interdependence on one another, desire to take elevated risks, and a government backstop cannot be allowed to continue to put the financial system at risk without holding elevated levels of high-quality capital that will be able to absorb credit losses in the next economic downturn. By incorporating the capital surcharge into the capital conservation buffer, any megabank that deviates from the regulatory capital minimum requirements imposed by the buffer will be immediately unable to further deplete capital levels that brought unprecedented strain to the global financial system in the recent economic crisis of 2008-09.

ICBA supports the Federal Reserve's use of the Basel Committee's established global indicators for identifying the factors needed to determine whether a top-tier bank holding company is systemically important. Emphasis on the use of wholesale short-term funding in the scoring methodology is also encouraging as it appears that regulators are taking the right steps to identify which funding sources would most likely result in a liquidity crisis if a serious breakdown in global capital markets were to occur. It is our hope that these firms will use the focus on wholesale short-term funding to quickly identify more permanent sources of financing that are less vulnerable to flight when they are most needed to provide necessary liquidity. At minimum, firms that continue to seek large amounts of wholesale short-term financing will be required to cover distressed asset sales with more loss-absorbing capital.

ICBA appreciates the opportunity to comment on this proposal. If you have any questions or would like additional information, please do not hesitate to contact me at james.kendrick@icba.org or (202) 659-8111.

Sincerely,

/s/

James Kendrick
Vice President, Accounting & Capital Policy