January 29, 2016

Re: Proposed rule establishing total loss-absorbing capacity, long-term debt, and clean holding company requirements for U.S. global systemically important banking organizations and U.S. intermediate holding companies of foreign global systemically important banking organizations

Robert deV. Frierson, Secretary
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20th Street and Constitution Avenue, NW
Washington, DC 20551
Ref: Docket No. R–1523 and RIN 7100 AE–37

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Institutional Investor

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Dear Mr. Frierson:

The Credit Roundtable[1] appreciates the opportunity to submit our comments to the Board of Governors of the Federal Reserve System ("Board") regarding the proposed rule ("Rule") on Total Loss-Absorbing Capacity ("TLAC") and Long-Term Debt ("LTD") for systemically important U.S. bank holding companies ("G-SIBs").

Credit Roundtable members invest in G-SIB debt capital across the maturity spectrum and capital structure. The proposed rule has given rise to a number of concerns, questions and recommendations which we have grouped into the following sections:

- Eligibility
- Liquidity
- Disclosures

Eligibility

The TLAC proposal from the Board states that eligible instruments must be "plain-vanilla" instruments, governed by U.S. law and have a remaining maturity of at least one year in order to create an eligible pool of external debt capital that can be used to absorb losses in a Title II Resolution.

"Plain vanilla" requires that eligible debt does not have a contractual right of acceleration for reasons other than insolvency or payment default. Most of the outstanding G-SIB senior issuance has acceleration rights making it TLAC ineligible, and although it is a smaller subcomponent of ineligible debt, debt issued under foreign law is estimated to exceed $35 billion[2]. According to Bloomberg data, ineligible debt will decline quickly, with approximately half of existing debt maturing prior to the Rule implementation date. We believe the most efficient solution is to grandfather existing debt that is ineligible due to accelerations clauses or under foreign law for a period of five to ten years. It is the most efficient alternative from a cost, administrative and execution risk perspective and will significantly reduce the costs associated with the "plain vanilla" requirement. Ineligible debt beyond the grandfather period could be selectively addressed through liability management transactions. If grandfathering of existing

[1] Formed in 2007, The Credit Roundtable ("CRT"), organized in association with the Fixed Income Forum, is a group of large institutional fixed income managers including investment advisors, insurance companies, pension funds, and mutual fund firms, responsible for investing more than $3.8 trillion of assets. The Credit Roundtable advocates for creditor rights through education and outreach and works to improve fixed income corporate actions, ineffective covenants and the underwriting and distribution of corporate debt. Its mission is to improve risk assessment and management through education and seeks to benefit all bond market participants through increasing transparency and market efficiency and liquidity.

[2] Source: WFS. Reg Cap Update. December 6, 2015. Page 6.

debt is not included in the final Rule, we believe it would significantly increase structural costs, market distortions and global systemic risk.

If a significant portion of existing debt is not grandfathered, according to CreditSights[3] TLAC issuance needs could exceed $500 billion. In responding to *Question 3* of the notice of proposed rulemaking ("NPR"), we believe this amount would have a material adverse impact on current investors and would significantly increase the future cost to issuers of G-SIB debt capital, lowering G-SIB bank earnings and reducing the flow of credit to the economy. The current market consensus on potential issuance is driven by the Board's estimate in the NPR of incremental G-SIB TLAC needs of $120 billion. While firms will initially have less "plain-vanilla" loss absorbing debt capital, this amount will quickly increase as the majority of existing debt is refinanced over the next ten years.

Alternatively, covered bank holding companies ("BHCs") could undertake liability management transactions such as a consent solicitation, tender or exchange to either amend the indentures of existing debt or replace acceleration language from outstanding series. We believe the market considers some of the covenants with acceleration remedies in existing G-SIB indentures to have modest value to credit investors. These covenants generally relate to officer authorization, paying agents, registration, and investment in subsidiaries. Generally, to achieve a covenant waiver, management must seek a majority of a series or class. Historically, issuers seeking modest changes to an indenture have paid twenty-five basis points to holders of $1,000.00 par value notes. Another alternative would be to redeem or replace ineligible debt via a tender or exchange, although execution premiums are estimated to cost double to quadruple the cost of a consent solicitation.

As we believe that a limited number of covenants with acceleration remedies are valuable to credit investors while not being problematic from a TLAC eligibility perspective, we recommend allowing those covenants to be included in eligible debt. Specifically the covenant forbidding the sale or transfer of a significant amount of holding company assets is very important to G-SIB investors due to the risk of integrated banks separating their commercial and investment banking businesses. It would be very challenging and costly to remove this type of covenant. Likewise, debt without this covenant would require significant more risk premium to reach fair value.

[3] Source: CreditSights. U.S. Banks: TLAC Eligibility of Senior Debt. December 1, 2015. Page 1

Another potential market distortion is the reluctance of management teams to issue potential TLAC/LTD eligible debt until final rules are issued. The lack of formal guidance is reducing bank duration in the market and will compress the time frame for banks to reach compliance. Uncertainty regarding issuance needs is currently impacting the G-SIB funding cycle. Historically banks have front loaded issuance needs for the year in the first half and in the preceding fourth quarter. Banks' management teams have commented that they are reluctant to issue debt that might not be TLAC eligible, or even grandfathered, because it could require additional costs to become eligible. If the publication of the final rule is delayed, we encourage the Board to consider an extended implementation deadline for banks to reach compliance.

Another concern regards the eligibility of existing trust preferred securities ("TruPS"). TruPS raise financing through separately established trust companies. In the typical structure, the sole assets of the trust generally consist of junior subordinated notes issued by the bank's holding company to the trust. The trust then issues TruPS to corporate credit investors.

The trust is not consolidated onto a bank's balance sheet, but the trust's obligations are fully and unconditionally guaranteed by the bank, which owns 100% of equity shares in the trust. In general, the trusts have no operations, revenues or cash flows other than those related to the issuance and administration of the TruPS.

As part of Basel III implementation in the U.S., banks using the Advanced Approach will lose Tier 1 regulatory credit for most TruPS beginning in 2016, although TruPS will remain eligible to be included in Tier 2 capital. TRuPs' treatment as Tier 2 capital will also ultimately phase out over the next five years.

After a review of the NPR, it is unclear to us if TruPS would be classified as eligible long-term debt (LTD). The NPR notes that LTD issued out of a bank subsidiary would not count for TLAC. However, while TruPS are not directly issued by the BHC, we note that the junior subordinated notes that make up the sole assets of the trust are issued by the BHC. Thus, it is entirely reasonable that TruPS should be included as eligible LTD given that the underlying assets are debt issued by BHC.

In our view, it would seem that TruPS do not meet the criteria for "plain vanilla", given the somewhat complex structure of the transaction. However, as noted above, assets underlying the trust that issues TruPS are securities that would certainly be classified as plain vanilla. Hence, as part of the final rule, we request guidance as to whether TruPS will be counted as LTD. We can see that most large banks are managing down their exposure to TruPS; however several banks still maintain sizable exposure, and clarification of this issue will make a difference in amount of debt that banks will need to issue.

Liquidity
Since the financial crisis, the decline of market liquidity has resulted in increased risk management costs for corporate credit investors. We are concerned that the Rule will result in another substantial decrease in liquidity, driving up risk management and debt capital costs that will ultimately be passed to savers and consumers of credit. The Rule would increase our members' risk management costs and potentially inflame market dislocation during a period of stress.

Our concern that market liquidity could be further constrained by the Rule is driven by the proposed capital deductions for G-SIB debt, and how those proposed capital deductions could accelerate contagion via a sharp decline in market liquidity. During periods of market dislocation, G-SIB trading desks will have less incentive to trade debt of other G-SIB banks as well as their own due to the capital charge. Furthermore, applying the same capital charge for subordinated debt and senior debt suggests the Board considers the instruments to have equivalent risks, which they do not. Similarly, applying a capital deduction and counting toward the 10% of common equity tier one ("CET1") threshold for senior debt that is not LTD eligible is inconsistent with the overall Rule.

To avoid negative market technicals, we propose that the underwriting exemption term be increased from five to at least thirty days and include a market making carve out, along with some additional flexibility provided for times of market dislocation. Our fear is that without a substantial change in the proposal; 1) the base of eligible investors in G-SIB debt will decline, 2) the secondary trading of G-SIB debt will decrease as market making becomes onerous for brokers/dealers, and 3) an external market-disruptive event may cause an inability to trade bank bonds at any price and, therefore, create a domino effect of squeezing liquidity out of the banking system. We also recommend that ineligible LTD is not counted against CET1 and the Board establish a reduced capital deduction for senior debt relative to subordinated debt.

We are also concerned about the front end of G-SIB credit curves and how the Rule will impact liquidity and potentially create negative technicals. Small- to medium-size regional banks, which together are a major group of investors in short duration G-SIB debt, will be reluctant to hold senior debt due to increasing, less favorable capital deductions. We believe this disincentive for regional banks to hold front-end G-SIB senior debt will exacerbate money market dislocation and increase the risk premium for shorter duration bank risk, which will increase the required risk premium across the G-SIB credit curve. Because G-SIB debt is relatively more liquid than other segments of the market and is therefore used to manage risk, the resulting decline in bank credit liquidity will reverberate throughout the corporate bond market.

We request clarification regarding what we believe is an inconsistency between U.S. G-SIB and Yankee G-SIB debt regarding capital deductions. Also, although it is not part of the proposed Rule, we are concerned about the potential capital deductions for non-bank G-SIFIs on G-SIB debt and resulting negative impact on the demand side for bank debt.

Disclosure

The proposed rule establishes that in the event a covered BHC breaches its external TLAC buffer, a BHC would be subject to limits on capital distributions and discretionary bonus payments. However, there are no corresponding limits on capital distributions and discretionary bonus payments should a BHC breach either its required long-term debt requirement or leverage ratio.

A key part of the proposed rule is to ensure BHCs achieve minimum levels of LTD and minimum leverage ratios. To this end, the broadening of the applicability of limitations on capital distributions and discretionary bonus payments to include breaches of the LTD and/or leverage ratio requirements would likely ensure BHCs have issued sufficient LTD to be in compliance with the TLAC rules starting in 2019.

Absent such limitations being imposed, it is conceivable that a resolution situation could arise where a BHC has issued insufficient LTD. As a consequence, the losses imposed on BHC senior unsecured debt holders could be greater than they should be, and the resolution resources available to regulators would also be more limited.

The following are responses to specific questions in the release.

Question 60: Whether a covered BHC should be required to disclose that the public section of its most recent resolution plan is available online? In order to improve market discipline and encourage sound risk management practices, institutions covered should be required not only to post online resolutions plans, but also to expand upon the currently inadequate living will disclosures. These offer insufficient details on potential resolution strategies and the ultimate fate of credit investors, who would be the future equity holders of these institutions. The expected waterfall in a resolution situation is important to investors, specifically where there are multiple issuing entities within a G-SIB structure. In conjunction with improved living will disclosure, markets are looking for enhanced creditor outreach and cooperation by relevant regulators to clarify policies and to delineate expected interaction with potential future equity holders before, during and after resolution.

Question 62: Should the Board require covered BHCs to provide specific disclosure language that is designed to notify potential investors of the resolution-related risks of investing in unsecured debt instruments issued by covered BHCs? If so, what language would be

appropriate? Disclosure language should be mandated to be included in prospectuses and indentures, and issuers should be required to provide easily accessible online links to prospectuses and indentures, on both CUSIP and series bases.

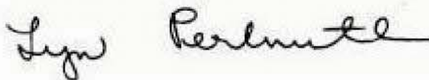
Question 63: Method of reporting requirements for eligible external & internal TLAC and LTD. We recommend that banks be required to disclose information related to external and internal TLAC and LTD in quarterly earnings releases, 10-Qs and 10-Ks, along with the prospectus.

Specifically in regard to external TLAC and LTD, we recommend that the Board require G-SIBs to delineate their current requirement, outstanding debt and buffer, and how compliance will evolve over the next five years. Outstanding debt and issuance requirements should be further delineated by currency, tenure, amount, issuing entity, geography and regulatory jurisdiction. We believe that disclosure of LTD ratios will become an important part of credit analysis, on par with the analytical value of common equity tier one analysis.

Markets require full transparency and clarity on regulatory treatment of bail-in-able debt, specifically, whether, if in resolution, LTD will be treated as a pool or on a CUSIP/series basis. If not being used as a pool, individual senior securities could have entirely different risk profiles, depending on where proceeds are down-streamed, which could shift over time as institutions reallocate internal loss absorbing capacity. On a non-pool basis, institutions should be required, on a quarterly basis, to provide enhanced downloadable data by CUSIP on how proceeds have been disbursed by 1) legal entity, 2) capital structure, 3) currency and 4) regulatory jurisdiction. These disclosures should be required for both single point of entry and multiple point of entry institutions. We believe the market would benefit from clarification from regulators on how external TLAC will be required to be positioned within the organizational structure, holding company and/or operating company, and within the individual capital structures of these legal entities.

We would welcome the opportunity to meet with the Board at your convenience regarding this letter and to discuss our questions, concerns and recommendations in greater detail. We look forward to further dialogue on the proposed Rule.

Sincerely,



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On Behalf of the Credit Roundtable