

February 27, 2015

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

Re: Regulatory Capital Rules: Application of Basel III to Non-Traditional Holding
Companies: Proposed Rule Demonstrating Application of Common Equity Tier 1 Capital
Qualification Criteria

Dear Mr. Frierson;

The American Bankers Association (ABA)¹ appreciates the opportunity to comment on the Federal Reserve Board's (Board) Notice of Proposed Rulemaking (proposal) on how to apply Basel III to depository institution holding companies that have non-traditional capital structures.

The U.S. has a diverse banking sector with many types of business models, charters, and holding companies. The initial Basel III standard was not adequately designed to address the variety in the U.S. banking system and did not define appropriate capital instruments for non-stock holding companies. The proposal describes examples of the capital instruments typically issued by such institutions, discusses features that prevent certain capital instruments from qualifying as common equity tier 1 capital, and provides suggestions on changes that would allow qualification. To provide sufficient time for these depository institution holding companies to review and revise their capital structures, the proposal would extend the applicable compliance date with the Board's revised capital rules from January 1, 2015, to January 1, 2016. In addition, the proposal provides a temporary exemption for savings and loan holding companies (SLHCs) that are personal or family trusts and notes that the Board expects to propose regulatory capital rules in the future for these SLHCs. Finally, the proposal also states that the Board expects to clarify the application of the regulatory capital rules to depository institution holding companies that are employee stock ownership plans.

ABA supports the initiative to facilitate capital compliance for holding companies other than stock corporations. These non-traditional holding company structures have clear authority to control banks or savings and loan associations and thereby to be bank or savings and loan holding companies as defined in the Bank Holding Company Act or Home Owners Loan Act 12 USC 1841(a) and (b) and 12 USC 1467a(a)(1)(C) and (D). The Basel III amendments to the regulatory capital standards adopted in 2013, particularly in relation to the definition of capital in

¹ The American Bankers Association is the voice of the nation's \$15 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard \$11 trillion in deposits and extend more than \$8 trillion in loans.

12 CFR 217.20, had raised troubling questions regarding the ability of these non-stock entities to comply with the newly adopted capital requirements, thereby potentially precluding what Congress clearly authorized as a permissible corporate holding company structure. The proposal is a positive first step in addressing the unintended consequences of the U.S. adoption of Basel III. ABA supports the Federal Reserve's initiatives to address these matters and to provide appropriate relief to the unique structural issues raised by applying the new capital requirements to partnership, limited liability, trust, and other non-traditional holding company structures. We stand ready to work with the Federal Reserve as it reviews the application of Basel III to non-traditional holding companies.

Sincerely,

A handwritten signature in black ink, reading "Hugh C. Carney", enclosed within a thin black rectangular border.

Hugh Carney
Vice President of Capital Policy