

November 23, 2016

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

Dear Mr. Frierson:

RE: Docket No. R-1548; RIN 7100 AE-59 - Amendments to the Capital Plan and Stress Test Rules

The following comment letter is submitted by the Regional Bank Group ("Group"). This Group is comprised of the institutions noted below that range in size from approximately \$60 billion to \$400 billion in total assets. More importantly, these institutions have less complex banking operations as reflected by their limited international presence, minimal nontraditional banking activities, and limited trading and clearing operations.

Regional Bank Group Participants (in order of total assets):

- The PNC Financial Services Group, Inc.
- Capital One Financial Corp.
- SunTrust Banks, Inc.
- American Express Company
- Ally Financial Inc.
- Citizens Financial Group, Inc.
- Fifth Third Bancorp
- Regions Financial Corp.
- M&T Bank Corp.
- BBVA Compass Bancshares, Inc.
- Discover Financial Services
- Comerica Inc.
- Zions Bancorporation

The Group appreciates the opportunity to provide comments regarding the Board of Governors of the Federal Reserve System's ("Board") proposed changes to the capital plan and stress test rules. The Group supports the pragmatic review of capital planning and stress testing requirements to help ensure that the process continues to ensure the safety and soundness of financial institutions, and more broadly, the financial system while also ensuring the effective and efficient deployment of resources.

The Group also supports the recent efforts to tailor expectations for capital planning and stress testing to be commensurate with an institution's risk profile and complexity. The Board's Supervision and Regulations Letters SR 15-18 and SR 15-19 were positive steps as they provided guidance related to standards set forth in the capital plan rule. The Group views the Notice of Proposed Rulemaking ("NPR") issued on September 26th as further constructive evolution of the process in response to the current operating environment.

The Group appreciates the opportunity to provide feedback and recommendations with respect to the implementation of the NPR and the Group's specific comments and recommendations are set forth below for the Board's consideration.

Factors to be Considered to Identify Large and Noncomplex Firms:

"Question 1: What other standards, such as revenue related to nonbanking activities, should the Board consider to identify large and noncomplex?"

The proposal emphasizes a firm's total assets, on-balance sheet foreign exposure, and nonbank assets as the criteria for determining what constitutes a large and noncomplex institution. Instead of these static thresholds, the Group recommends that the Board employ its systemic indicator methodology for identifying bank holding companies ("BHCs") that are Global Systemically Important Bank Holding Companies¹. This methodology would appropriately introduce a dynamic, risk-sensitive measure of a bank holding company's systemic profile into the broader framework of prudential regulations, thereby ensuring that the scope of enhanced prudential requirements is appropriately tailored.

This systemic indicator score ("SIS") employed in that final rule considers a BHC's size, interconnectedness, substitutability, complexity and cross jurisdictional activity, and has been proposed to serve as the basis for determining the level of the capital surcharges to be included in future capital plans. The SIS should also be used to demarcate the firms that are considered large and noncomplex from those that are large and complex.

Hence, all firms determined to be above the score threshold (and thus deemed G-SIBs subject to, among other things, a regulatory capital surcharge) should be considered large and *complex*. Those banks that are below the score (and thus not deemed G-SIBs and not subject to capital surcharges) should be considered large and *noncomplex*. The framework developed by the Board is risk sensitive, dynamic and transparent and the consistent application of that methodology in *all* regulatory rules and requirements establishes the most logical, precise, and comprehensive approach to systemic risk regulation.

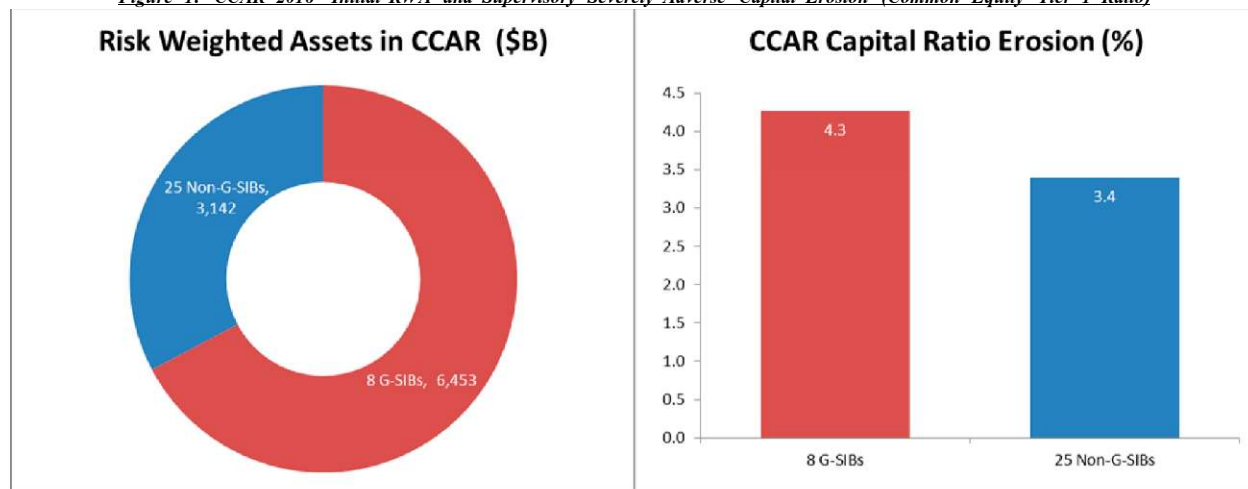
Relative to larger and more complex organizations (such as the G-SIBs), BHCs with an SIS below 130 have comparatively simple business models and operations, bank-centric organizational structures, and comparatively small, if any, foreign operations. These organizations primarily focus on providing traditional retail and commercial banking products and services, and have only limited trading and capital markets operations. Broker-dealers and other nonbank operations comprise only a small portion of our organizations' overall operations, and by contrast, it is common for the majority of our organizations' business operations and consolidated assets to be held in insured depository institution subsidiaries. For reference, the lowest G-SIB Method 1 SIS score (148bps) is more than four times the highest SIS Method 1 score (35bps) of any "main street" regional banking organization, which clearly illustrates the delineation in complexity and systemic importance between firms identified as G-SIBs and regional banking organizations.

1: 12 CFR Parts 208 and 217 [Regulations H and Q; Docket No. R-1505] RIN 7100 AE-26 Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies (Fed Register Vol 80, No 157, August 14th, 2015)

2: Source: Barclays Research: "Calculating G-SIB Surcharges Using Method 1" November 14, 2016.

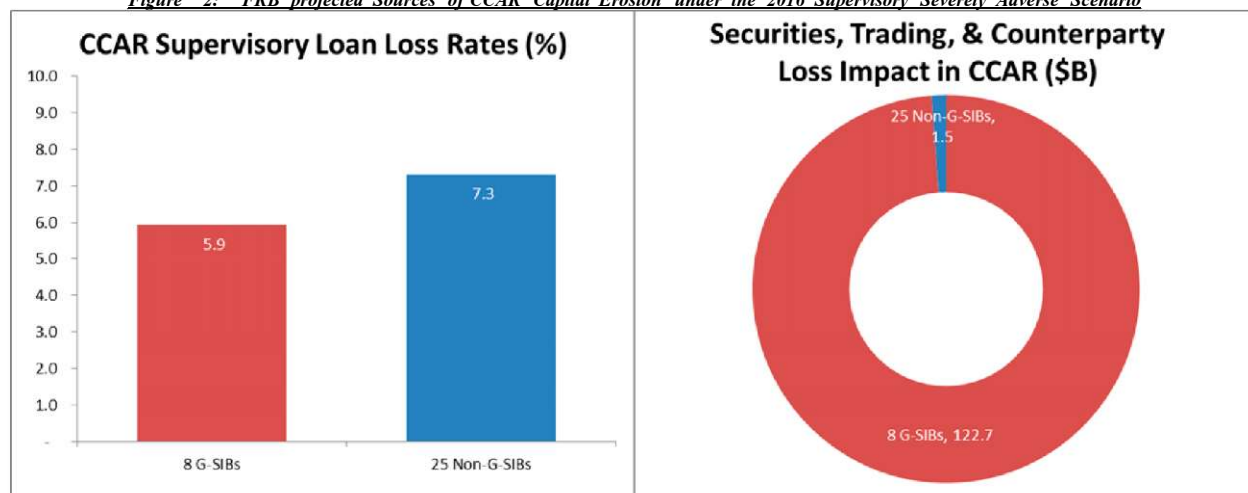
As evidenced by the CCAR results shown below, in *Figure 1*, the distribution of Risk Weighted Assets ("RWA") for CCAR 2016 by G-SIBs and Non-G-SIB participants, G-SIBs make up less than 25% of the CCAR participant population, but comprise over two thirds of the RWA. Additionally, G-SIBs also generate higher rates of capital erosion in the stressed scenario, owed in part to impacts of the global market shocks and counterparty defaults components applied to those firms.

Figure 1: CCAR 2016 Initial RWA and Supervisory Severely Adverse Capital Erosion (Common Equity Tier 1 Ratio)



Shown below, traditional lending activities are not the primary source for the difference in capital erosion experienced by CCAR firms. In fact, on average, Non-G-SIB firms have higher loan loss rates than G-SIBs. The difference in capital erosion rates, as shown in *Figure 2*, is primarily due to nontraditional banking activities, such as trading and counterparty and securities financing losses, which offset the higher credit loss rates.

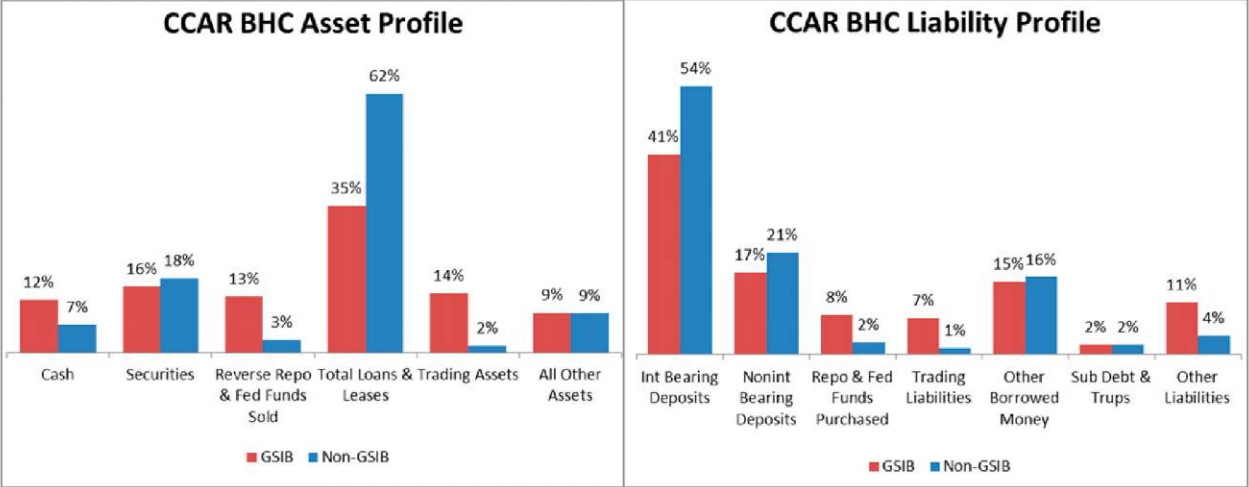
Figure 2: FRB projected Sources of CCAR Capital Erosion under the 2016 Supervisory Severely Adverse Scenario



The sub-130 SIS organizations also rely primarily on core sources of funding, i.e., deposits, and do not rely to a significant degree on potentially volatile, short-term sources of market funding. See *Figure 3*, below. For example, regional banking organizations engage only to a limited extent in repurchase, reverse repurchase, or other securities financing transactions. As a result of having simpler and more stable funding profiles, liquidity inflows and outflows of these

organizations generally are more stable and predictable than larger and more complex organizations. Thus, liquidity risk is lower and easier for management and supervisors to monitor and manage.

Figure 3: Asset & Liability Profiles for CCAR Institutions as of 6/30/16. Source: SnL Financial



Elimination of Qualitative CCAR Assessment for Large, Noncomplex Companies:

"This proposal would revise the standards that the Board uses to review capital plans for bank holding companies that have total consolidated assets of at least \$50 billion but less than \$250 billion, on-balance sheet foreign exposure of less than \$10 billion, and nonbank assets of less than \$75 billion (each, a large and noncomplex firm). Specifically, these large and noncomplex firms under the proposal would no longer be subject to the provisions of the Board's capital plan rule whereby the Board may object to a firm's capital plan based on unresolved supervisory issues or concerns with the assumptions, analysis, and methodologies in the firm's capital plan."

The Group is supportive of the proposal to separate the qualitative assessment of a "large and noncomplex" BHCs capital planning process from the annual CCAR capital plan; however, as noted above, we do not believe that the proposed thresholds based on total assets, nonbank assets, and on-balance sheet foreign exposure are the appropriate criteria to be applied when identifying large and noncomplex firms. Separating the qualitative assessment should reduce resource demands for both the Board and large & noncomplex BHCs. In addition, it should enable large and noncomplex firms to more effectively manage their capital by removing the ambiguity and uncertainty associated with the annual qualitative assessment conducted in conjunction with CCAR. However, as described further below, the Group recommends publishing clear processes and criteria that would apply to the local supervisory reviews regarding capital planning and stress testing in lieu of the qualitative assessment in order to realize the expected benefits from the removal of the qualitative assessment.

Under the NPR, the annual CCAR qualitative assessment for large and noncomplex BHCs would be replaced by a review of the BHCs capital planning and stress testing processes as part of the regular examination cycle through a combination of local and horizontal Federal Reserve exam teams. The Group believes that additional clarification around the ongoing supervisory review process would be beneficial. Specifically, clarification with respect to: (1) the notification of horizontal reviews and

their areas of focus, (2) the timing of horizontal reviews of specific capital planning related processes, (3) the interaction with local examination teams during the horizontal review process, and (4) the prevailing guidance used to set capital planning expectations of those local and horizontal teams. More detail on the four recommendations is provided below:

- (1) The Group believes that the notification of a planned horizontal review should include information on the particular area of focus for the review, as well as the general expectations surrounding materials and documentation that describe the processes, methodologies, and governance involved in the area. Further, to facilitate an effective horizontal review, a reasonable period of advance notice, for instance a minimum 60 days, would be appropriate, to ensure that firms have adequate time to ensure that the most critical and relevant documents and resources are available during the review period.
- (2) In addition to advance notice of an upcoming horizontal review, clarification around the general timing of the reviews would be beneficial for companies. The Group recommends that the Board propose that horizontal reviews be performed during the 2nd quarter in connection with the annual CCAR evaluation period. As currently proposed, the reviews "would likely occur in the quarter following the CCAR qualitative assessment for [Large Institution Supervisory Coordinating Committee] firms and large and complex firms", which would coincide with the execution of the mid-cycle DFAST process. The Group would request that horizontal reviews not be performed during that quarter to allow firms to focus on the mid-cycle DFAST stress test.
- (3) The Group would recommend clarification around the interrelationship between horizontal and local examination teams during and after the horizontal reviews. Specifically, any difference in local and horizontal supervisory expectations can cause difficulties in addressing supervisory feedback received as a result of the horizontal review. Put simply, if local and horizontal expectations differ, demonstrating remediation to allow the closure of a Matter Requiring Attention may be difficult.
- (4) The Group would expect that local and horizontal examination teams will use the capital planning and stress testing principles set forth in SR 15-19 as the prevailing guidance to develop the expectations of the processes under review during the ongoing and targeted reviews of the capital planning process for large and noncomplex Firms. Incorporating a direct reference to the incorporation of the SR 15-19 principles into the proposed rulemaking would help firms prepare for examinations by providing an explicit set of principles and expectations firms should be achieving. Additionally, the Group would recommend that the Board consider reviewing SR 11-7 given the interrelationship between it and SR 15-19 and the potential for duplication and/or conflicting guidance.

Changes to the De Minimis Exception:

"The proposal would amend the de minimis exception in two ways for all bank holding companies subject to the capital plan rule. First, the proposal would establish a one-quarter "blackout period" while the Federal Reserve is conducting CCAR (the second quarter of a calendar year), during which bank holding companies would not be able to submit a notice to use the de minimis exception. Second, the proposal would lower the de minimis limitation from 1.00 percent to 0.25 percent of a bank holding company's tier 1 capital, beginning April 1, 2017."

The Group would recommend deferring the implementation of a change to the *De Minimis* exception until the implementation of the Stress Capital Buffer ("SCB") suggested by Governor Tarullo during his speech on September 26, 2016. Additionally, the Group would recommend leaving the threshold for the *De Minimis* exception at 1% and evaluating alternatives that would be consistent with the intent of the proposed changes when additional details on the SCB are available. Given this potential change, and in consideration of the fact that the Board retains the right to object to a *De Minimis* capital distribution within the requisite 15 day notification window, a reduction in level allowed by the *De Minimis* exception seems an unnecessary constraint.

While not referencing a matter under the current NPR but rather comments made by Governor Tarullo during his speech on September 26, 2016 regarding the SCB, the Group is opposed to the establishment of a 2.5% SCB floor. The establishment of a 2.5% SCB floor would be inconsistent with the Board's position that a firm's capital position should be reflective of its risk profile. The Group suggests that a firm's SCB should reflect the actual amount of capital erosion derived under stress scenarios in order to tailor a firm's capital requirements to its risk profile. The Group cautions that any floor on the SCB would have the potential to act as a minimum target for capital erosion under stress scenarios, and would thereby incent firms to consider expanding their risk profile to efficiently utilize that additional capital, thereby increasing their stressed losses.

Changes in Reporting Requirements:

"The proposal would also modify associated regulatory reporting requirements for large and noncomplex firms to collect less detailed information on these firms' stress test results and raise the materiality threshold for reporting on specific portfolios."

The Group is very supportive of the intent of these changes, but believes that there is an opportunity to further reduce (1) documentation efforts, and (2) FR Y-14A schedule complexity.

- (1) Given the proposal to separate the qualitative assessment from the annual CCAR assessment for large & noncomplex firms, the Group would propose removing several supporting documents from a company's CCAR submission. These documents are generally used to facilitate the qualitative review of a company's capital planning process, and in the absence of that review, will provide limited benefit to Federal Reserve resources, while still requiring substantial preparation efforts. The Group would recommend that the Capital Plan document, which represents the capstone document of the CCAR submission, become the sole Capital Plan Narrative document submitted to the Federal Reserve in support of a company's proposed Capital Plan. The Capital Plan document is intended³ to provide a summary of the capital planning process and results, and therefore serves as an effective description of a company's capital planning process, capable of demonstrating broad adherence to the guidance set forth in SR 15-19. The Group also recommends that the Board

3: Per the CCAR 2016 instructions, the Capital Plan document "provides a summary of the BHC's capital plan and the pro forma financial results under the different scenarios evaluated as part of the capital planning process. The document should summarize the BHC's proposed capital actions, the various scenarios used in the capital planning process, the key risks and drivers of financial performance under each scenario, key assumptions, and other relevant information."

provide additional guidance regarding the specific information to be contained in the Capital Plan Narrative to ensure completeness and consistency across the BHCs. To ensure clarity in the Final Rule, the Group recommends that the Board provide specifics on the required document format similar to what has been provided in the past with the annual CCAR Instructions. The guidance was prescriptive and provided clarity on what needed to be incorporated in the submission. This will help ensure horizontal consistency across bank submissions.

This would eliminate the submission of the remainder of the currently required Capital Plan Narrative documents, namely Capital Policies, Planned Capital Actions, Capital Planning Process, Risk Identification Program Overview, BHC Scenarios Design Process Overview, Material Business Plan Changes, Summary of Assumptions, Limitations, & Weaknesses, Governance Framework, and the Summary of Audit Findings. In addition to the elimination of model related documentation from the submission, the elimination of other Methodology Documentation requirements would significantly reduce documentation burdens (Retail, Wholesale, Loans Held for Sale and Loans Accounted for under the Fair Value Option, AFS/HTM Securities, Trading, Counterparty Credit Risk, Operational Risk, PPNR, MSR, and the Consolidated Pro-Forma Financials Methodology). These documents are also primarily used in support of the qualitative evaluation of the capital planning process, and without that qualitative review, provide little benefit relative to the effort required to produce them.

The Group recognizes the need to maintain comprehensive and up-to-date model documentation, both from an internal risk management perspective as well as to meet the expectations laid out in SR 11-7. The Group is supportive of the proposed reduction in submission requirements relating to supporting model documentation, though it would note that while it materially reduces the volume of submitted documents, the need to be able to maintain that documentation, and provide it to supervisors upon request means that the practical benefit companies will experience because of this change is limited, and may in fact represent an increased burden from the current practice.

- (2) The Group is also supportive of the removal of certain schedules in the FR Y-14A report. The Group would also suggest the elimination of the "Retail Balance & Loss Projections", "PPNR Metrics Worksheet", "Retail Repurchase Exposures", and "Regulatory Capital Transitions Template" worksheets from the FR Y-14A schedule. The first two worksheets generally provide ancillary data that is not used to generate forward projections of revenue, loss, or capital for the BHC, or is already available on other schedules (e.g. Retail Losses are available on the Income Statement Worksheet.). The proposed rulemaking would eliminate the Retail Repurchase worksheet from the FR Y-14A, which contains the projected losses on sold loans. Subsequently, the information contained in the Retail Repurchase Exposures worksheet would no longer be useful. The Group does not currently have transparency into the supervisory need for these projections, but recognizes that the projections on those schedules may be used as inputs into supervisory estimates. Should this be the case, and the Retail Balance & Loss Projections and PPNR Metrics Worksheet schedules are necessary inputs into supervisory projections, the Group would suggest that the Federal Reserve provide firms information on the intended use of these projections. Finally, the Regulatory Capital Transitions Template will become obsolete in CCAR 2017, as the Basel III phase in period will be fully complete by the end of the projection horizon for the traditional 9-quarter

projection period reflected in the Summary Schedule⁴. The projections on that template related to the Supplementary Leverage Ratio or the Enhanced Supplementary Ratio could be required only for firms subject to those ratios. Further, the Group believes all of the CCAR BHCs are already generally compliant with Basel III capital requirements when measured on a fully phased in basis, and thus do not believe the information included in the Regulatory Capital Transitions schedule provides any additional insight into BHC's readiness for Basel III capital requirements.

Modification to the Scenarios Submitted during CCAR:

The Group recommends modifying certain elements of the scenarios required under the CCAR process given that the assessment is limited to a quantitative analysis. One suggestion is to simplify the guidance related to the development of the BHC Baseline scenario. Currently, firms may elect to use the Supervisory Baseline scenario if it is sufficiently similar to its internal baseline economic scenario. The Group recommends broadening the criteria related to the use of the Supervisory Baseline scenario so that firms can elect to use the Supervisory Baseline scenario if, in their assessment, it is a reasonable reflection of the current economic outlook. This will enable increased application of the Supervisory Baseline scenario and avoid unnecessary and redundant forecasting under multiple baseline economic scenarios.

In those situations where a firm elects to develop its own baseline scenario, the Group recommends that the current level of granularity required to be supplied for that scenario be significantly simplified. As a matter of internal practice, firms maintain baseline forecasts for internal management and capital forecasting purposes; however, these forecasts are generally only aggregated along the FR Y-14A hierarchy for the purpose of submission to the Federal Reserve. Given that it is highly unlikely that the BHC Baseline scenario would be the source of a quantitative objection, and that the qualitative objection will no longer be a consideration for large & noncomplex firms, the Group suggests that the current granularity of the submission of the BHC Baseline scenario does not provide significant value to supervisors during the CCAR process. The Group recommends creating a simplified reporting template for the BHC Baseline scenario. Consolidated projections of the income statement and balance sheet under the BHC Baseline scenario would still provide support for quantitative aspects of a firm's proposed capital plan, but would eliminate the need to transpose data developed along internal management hierarchies into FR Y-14A reporting hierarchies.

4: Certain Basel III transitions applicable to BHCs subject to the Advanced Approaches rule, such as the phase-out of Trust Preferred Securities from Tier 2 Capital, will still be subject to Basel III phase-in beyond the 9-quarter forecast horizon in the Summary Schedule, however due to the fact that the Regulatory Capital Transitions schedule does not include a projection for the Total Risk-based Capital ratio, the undersigned do not believe this schedule provides any additional or meaningful insights regarding the capital adequacy of the CCAR BHCs.

Additionally, while the Group recognizes it would require legislative change outside of the purview of the Federal Reserve Board, it would suggest that the Supervisory Adverse Scenario provides no incremental insight into the capital adequacy of firms, and therefore, should be eliminated from the annual CCAR submission. The Supervisory Adverse Scenario has typically incorporated a scenario that is not as severe as the Severely Adverse Scenario, but may also have some nuanced economic circumstances. Historically, these nuances have not been significant enough to alter the ranking of severity within the scenarios, and as such, they do not represent additional capital management constraints. The BHC Stress scenario would remain, as it would provide a firm specific scenario that is particularly acute to each individual firm's risk profile.

Requests for Additional Scenarios and Data Submissions from Large & Noncomplex Firms:

The Group also recommends that the Board consider amending the language in the current Stress Test Rules related to the different economic and financial scenarios that the Board may use in its analysis of a Firm's Capital Plan⁵. Given the proposed removal of the Board's ability to object to a Large & Noncomplex firm's Capital Plan on qualitative grounds, the reference to the "trading" and "additional scenarios" above implies that Large & Noncomplex firms may be required to provide financial projections and supporting documentation for scenarios that would not be used in the Board's assessment of a firm's capital adequacy, which the Group believes are unnecessary for large and noncomplex BHCs due to the less complex nature of such firms.

Similarly, the Group recommends the Board enhance the language currently included in 12 CFR 252.45 (Data and information required to be submitted in support of the Board's analyses) to provide additional clarity regarding the data and supporting documentation that Large & Noncomplex firms may be required to submit to the Federal Reserve as a part of the CCAR review process⁶. As currently written, Large & Noncomplex firms may be required to submit substantial documentation to the Federal Reserve that the Group believes would be potentially duplicative and burdensome, especially given the elimination of the qualitative objection component of CCAR. Accordingly, the Group believes additional specificity regarding the supporting documentation that Large & Noncomplex firms may be required to submit will provide clarity and enable more efficient resource management in the capital planning and stress testing processes.

5: 12 CFR 252.44: *"The Board will conduct its analysis under this section using a minimum of three different scenarios, including a baseline scenario, adverse scenario, and severely adverse scenario. For the stress test cycle beginning on October 1, 2014, the Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle by no later than November 15, 2014, except with respect to trading or any other components of the scenarios and any additional scenarios that the Board will apply to conduct the analysis, which will be communicated by no later than December 1, 2014. For each stress test cycle beginning thereafter, the Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle by no later than February 15 of each year, except with respect to trading or any other components of the scenarios and any additional scenarios that the Board will apply to conduct the analysis, which will be communicated by no later than March 1 of that year."*

6: 12 CFR 252.45(b)(1): *"The Board may require a covered company to submit any other information on a consolidated basis that the Board deems necessary in order to: (1) Ensure that the Board has sufficient information to conduct its analysis under this subpart; and (2) Project a company's pre-provision net revenue, losses, provision for loan and lease losses, and net income; and pro forma capital levels, regulatory capital ratios, and any other capital ratio specified by the Board under the scenarios described in §252.44(b)."*

Thank you for considering these recommendations that would help strengthen the CCAR and stress testing process. The Group looks forward to continuing a dialogue with the Board regarding these proposals and welcomes the opportunity to discuss any of the recommendations contained in this letter.

Sincerely,

Ally Financial Inc.
American Express Company
BBVA Compass Bancshares, Inc.
Capital One Financial Corp.
Citizens Financial Group, Inc.
Comerica Inc.
Discover Financial Services
Fifth Third Bancorp
M&T Bank Corp.
The PNC Financial Services Group, Inc.
Regions Financial Corp.
SunTrust Banks, Inc.
Zions Bancorporation