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June 4, 2020

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Ann E. Misback, Secretary

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attention: Robert E. Feldman, Executive Secretary

Re: Notice of Proposed Rulemaking, Guidance for Resolution Plan Submissions of Certain Foreign-Based Covered Companies, Federal Reserve Docket No. OP-1699, FDIC RIN 3064-ZA15

Ladies and Gentlemen:

Credit Suisse welcomes the opportunity to comment on the proposed guidance (the "Proposed Guidance") for the 2021 and subsequent U.S. resolution plan submissions for the U.S. operations of certain foreign banking organizations (hereafter referred to as the "Specified FBOs"[1]) by the Board of Governors of the Federal Reserve System (the "Board") and the Federal Deposit Insurance Corporation ("FDIC" and, collectively with the Board, the "Agencies").

I. Executive Summary

While some aspects of the Proposed Guidance are constructive, several elements raise fundamental issues. This overview section highlights our primary concerns and proposes essential revisions. The remainder of this letter provides a more detailed discussion of the issues, their potential consequences, and necessary revisions to the Proposed Guidance:

- **The Proposed Guidance mistakenly groups the Specified FBOs in the same category as the U.S. GSIBs. Using any relevant measure, the Specified FBOs are much smaller and less risky than the U.S. GSIBs and present far lower risks to U.S. financial stability.** The Proposed Guidance would group the Specified FBOs with the U.S. G-SIBs and would apply materially identical standards to those in the 2019 Domestic Guidance.[2] Given the dramatic downsizing of the Specified FBOs over the last decade, it is now simply unfair to group the Specified FBOs in the same category as the U.S. GSIBs. The Agencies recognized this fact when they finalized the application of enhanced prudential

[1] The Specified FBOs are Barclays PLC; Credit Suisse AG; and Deutsche Bank AG.
[2] 84 Fed. Reg. 1438 (the "2019 Domestic Guidance"), which applied to Bank of America Corporation; The Bank of New York Mellon Corporation; Citigroup Inc.; The Goldman Sachs Group, Inc.; JPMorgan Chase & Co.; Morgan Stanley; State Street Corporation; and Wells Fargo & Company (together, the "U.S. GSIBs").

standards just last year, which placed all of the Specified FBOs in lower tailoring categories.[3] We are concerned that the Proposed Guidance creates a misleading precedent, one that implicitly re-creates the Large Institution Supervision Coordinating Committee ("LISCC") designation and assigns the Specified FBOs to an unwarranted risk category.

- **The Proposed Guidance vastly overstates the systemic risk of the Specified FBOs because of serious flaws in the method 2 GSIB framework that are exposed when this method is applied to the Specified FBOs as a scoping mechanism.**[4] The primary cause of this distortion is method 2's short-term wholesale funding ("STWF") component, which comprises over 90% of the method 2 score for the Specified FBOs. All other indicators correctly show the Specified FBOs to have modest risk – less than 10% of the U.S non-processing GSIBs.

  The STWF indicator uses an idiosyncratic weighting system that is based on a ratio of two important outright systemic risk metrics, incorporating risk-weighted assets ("RWA") in its denominator. It was then calibrated to produce balanced indicator weights specifically for the U.S. GSIB sector, without regard to other firms or business models. As the Specified FBOs have reduced their risk assets in the U.S. – becoming intrinsically *less* systemic – the STWF weighting factor *grows* because of the reduced RWA denominator. This methodological anomaly means that any unit of short-term funding is weighted sixteen times greater when applied to the Specified FBOs than an identical funding position at the large U.S. GSIBs. Other evidence shows that the Specified FBOs maintain a conservative liquidity profile.

  In short, the spurious STWF ratio score produced by method 2 is the sole reason that the Specified FBOs are scoped in under the Proposed Guidance. This result is not supported by any other evidence pointing to a major liquidity risk or high systemic footprint among the intermediate holding companies ("IHCs") of the Specified FBOs.

- **The Agencies should revise the scoping mechanism to align resolution planning expectations with the true systemic risks of these entities.** The resolution plan rule[5] was created pursuant to section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") "to prevent or mitigate risks to the financial stability of the United States that could arise from the material financial distress or failure… of large, interconnected financial institutions".[6] Section 165 also requires that the Board "differentiate among companies on an individual basis or by category, taking into consideration their capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the Board of Governors deems appropriate".[7]

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[3] Board of Governors of the Federal Reserve System, Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, Foreign Banking Organizations, 84 Fed. Reg. 59032 (Nov. 1, 2019) (the "EPS final rule"); Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Changes to Applicability Thresholds for Regulatory Capital Requirements, 84 Fed. Reg. 59230 (Nov. 1, 2019) (the "interagency final rule" and, together with the EPS final rule, the "tailoring rules").

[4] 12 CFR 217.405. Method 2 GSIB scoring was designed explicitly as a surcharge framework, not as a scoping mechanism. It was also built for the U.S. GSIBs and calibrated specifically to them. Indeed it was designed to achieve a balanced result among the indicators for the U.S. GSIBs, a process that was not replicated when it was applied to the FBOs.

[5] 12 CFR 243 (the "resolution plan rule").

[6] 12 U.S.C. § 5365(a)(1).

[7] 12 U.S.C. § 5365(a)(2)(A).

Just last May, the Agencies released proposals to "modify the enhanced prudential standards ("EPS") framework applicable to foreign banking organizations in a manner commensurate with the risks such organizations pose to U.S. financial stability".[8] Given the consideration and engagement involved in developing EPS, we propose that the Agencies apply the Proposed Guidance using the tailoring categories they finalized in the tailoring rules.[9] In addition to being consistent with the application of other EPS requirements, this approach would be better, simpler and more intellectually coherent than repurposing a flawed method 2 framework as a new and duplicative scoping mechanism.

Accordingly, we recommend that the Proposed Guidance be restricted to FBOs that qualify as Category II IHCs under the tailoring rules. However, if the Agencies prefer to adopt a GSIB scoring framework, we also suggest alternatives below that address the flaws in the method 2 framework (a summary of our main recommendations can be found in the table below).

- **To recognize the modest risk to U.S. financial stability posed by the Specified FBOs today, the Agencies should moderate the expectations laid out in the 2018 FBO Guidance.** ***At a minimum*** **they should not impose new expectations in excess of that guidance**. The Proposed Guidance increases the expectations for Specified FBOs compared to the 2018 FBO Guidance, despite the fact that these FBOs have continued to shrink since the 2018 Guidance was issued. There is no systemic risk justification to continue to impose enhanced guidance on the Specified FBOs, and certainly no reason to go beyond the expectations contained in the 2018 FBO Guidance. In particular, there is no need to impose the proposed extraterritorial DER and PCS requirements on the Specified FBOs. The Agencies should adopt an approach that recognizes the tailoring categories and treats all domestic and foreign institutions on a fair and level playing-field. We summarize our recommendations on scoping and in terms of expectations for filers below.

Summary of Recommendations

Scoping Criteria	**Guidance that should apply**	
	2019 Domestic Guidance/Proposed Guidance (less extraterritorial DER/PCS expectations for FBOs)	**Firm-specific guidance (i.e. as applicable to "second-wave" filers)**
FBO: Category II IHC or IHC with Method 1 Score ≥ 130 **BHC:** Category I or II BHC	☑	
FBO: Category III IHC **BHC:** Category III		☑

Note: if the Agencies choose to adopt a method 2 framework approach to scoping, we propose alternative ways of calculating the method 2 score for IHCs in section IV.

[8] 84 Fed. Reg. 21988, at 21990 (Board only) and 84 Fed. Reg. 24296 at 24301 (Interagency). The Interagency proposal refers to modifying the "regulatory" rather than the "enhanced prudential standards" framework.

[9] Board of Governors of the Federal Reserve System, Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, Foreign Banking Organizations, 84 Fed. Reg. 59032 (Nov. 1, 2019) (the "EPS final rule"); Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Changes to Applicability Thresholds for Regulatory Capital Requirements, 84 Fed. Reg. 59230 (Nov. 1, 2019) (the "interagency final rule" and, together with the EPS final rule, the "tailoring rules").

- **Filers should have flexibility in developing Contractually Binding Mechanisms.** The Proposed Guidance requests feedback on the merits of filers' forms of contractually binding mechanism ("CBM"). We submit that the appropriate focus for evaluating a CBM is whether is meets the Agencies' articulated policy objectives, and believe it would be counterproductive for the Agencies to impose a preferred approach to the provision of support in any final guidance.

- **The Agencies should, as advocated by Vice Chair Quarles, shift to a home-host approach that balances the need for certainty at the host jurisdiction (here, the U.S.) with the need for flexibility at the home jurisdiction.[10]** Expansive FBO resolution standards further emphasize the unbalanced "standalone plus" philosophy that pervades the current U.S. regulatory and supervisory framework for FBOs. Resolution of the U.S. operations of the Specified FBOs is a backup strategy, and modestly-sized FBO plans do not need to be evaluated like a primary U.S. GSIB parent-level plan.

  The Proposed Guidance is unfortunately consistent with the approach that has underlies other U.S. prudential rulemaking and supervision for FBOs, which has led to broadly super-equivalent outcomes for FBO subsidiaries. For example, the capital and TLAC ratios for the Specified FBOs significantly far exceed U.S. GSIB bank ratios, despite their smaller and more liquid balance sheets.[11] Heavy resource preplacement at subsidiaries can lead to lower resilience at the group level[12], because of the loss of internal flexibility. It also can create unfortunate precedents that leads other nations to replicate.

  In our view, the resource-heavy approach has also contributed materially to the decline of FBO competitors in the United States marketplace, due to the disparate cumulative regulatory burden faced by FBOs. We believe that it would be better to adopt a more balanced approach, in line with the principles expressed in Vice Chair Quarles' "Brand-Your-Cattle" speech. The Agencies should work with the Specified FBOs and home supervisors to reduce excessive preplacement requirements and other sources of fragmentation, and support the global single-point-of-entry ("SPOE") approach where chosen.

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[10] Vice Chair for Supervision Randal K. Quarles, "Trust Everyone—But Brand Your Cattle: Finding the Right Balance in Cross-Border Resolution" (May 16, 2018). Available at: https://www.federalreserve.gov/newsevents/speech/quarles20180516a.htm.

[11] For example, the average CET1 / RWA ratio for the Specified FBOs is 22.7%, almost double the average for the non-processing U.S. GSIBs (12.1%). The average Tier 1 leverage ratio was 11.1% for the Specified FBOs, more than 40% higher than the 7.9% for the non-processing U.S. GSIBs. Data is at Q1 2020, FRY-9C reports.

[12] D. Wilson Ervin, "Understanding 'ring-fencing' and how it could make banking riskier," Brookings Institution Series on Financial Markets and Regulation, February 7, 2018. Available at: https://www.brookings.edu/research/understanding-ring-fencing-and-how-it-could-make-banking-riskier/.

II. The size and systemic risk profiles of the Specified FBOs have declined steeply in recent years, and the Specified FBOs are now a fraction of the size and risk level of their U.S. competitors. The Specified FBOs are safer and more resolvable, thanks to additional bail-in resources at both the local and global levels, and their well-developed parent SPOE plans. The failure of a Specified FBO would therefore have a far smaller impact on U.S. financial stability than that of a U.S. GSIB, making it inappropriate to apply materially identical resolution expectations to both sets of institutions.

In remarks earlier this year, Vice Chair Quarles acknowledged that the Specified FBOs and UBS had significantly simplified and de-risked their U.S. operations relative to those of the U.S. GSIBs.[13] Commenting on the need to remove the (then four) FBO members of the Large Institution Supervision Coordinating Committee ("LISCC") portfolio in order to better align with the recently finalized tailoring rules, he made the following remarks:

> Since 2010, [Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG and UBS AG (the "LISCC FBOs")] have significantly shrunk their U.S. footprint, and their U.S. operations are much less risky than they used to be. Since 2008, the size of the LISCC FBOs' combined U.S. assets has shrunk by about 50 percent, and they have reduced the assets at their broker-dealers from a peak of $1.9 trillion in 2008 to $340 billion today, a reduction of over 80%. In addition, the estimated systemic impact of the LISCC FBOs today is much smaller than the U.S. GSIBs. The average method 1 GSIB score of the combined U.S. operations of the LISCC FBOs is less than a quarter of the average GSIB score of the six non-processing U.S. GSIBs.[14]

The LISCC group discussed by Vice Chair Quarles overlaps materially with the Specified FBO group,[15] and the data he cites are nearly the same for them. As the Institute of International Bankers ("IIB") letter on the Proposed Guidance notes,[16] the three Specified FBOs have reduced the aggregate size of their IHCs by 38% (from $605 billion to $374 billion between 2016 and 2019), and have reduced their aggregate broker-dealer assets by 45% (from $475 billion to $262 billion).[17] In contrast, the broker-dealer assets of firms affiliated with U.S. BHCs have been growing, increasing by roughly 30% since 2015.[18] In short, while the IHCs and broker dealers of the Specified FBOs have shrunk dramatically, the equivalent operations of the US banks have continue to expand.

As Vice Chair Quarles also remarked, the aggregate method 1 GSIB score of the FBO LISCC firms is also far smaller than the scores for non-custody U.S. GSIBs.[19] Based on year-end 2019 data, the Specified FBOs' IHCs method 1 score is only 15 percent that of the non-

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[13] Vice Chair for Supervision Randal K. Quarles, "Spontaneity and Order: Transparency, Accountability, and Fairness in Bank Supervision" (Jan. 17, 2020) (hereafter referred to as Quarles remarks on supervision).
[14] Id.
[15] As framed by the Proposed Guidance, UBS AG would not be a Specified FBO.
[16] Institute of International Bankers, Comment Letter on the Proposed Guidance, p. 5.
[17] See National Information Center, https://www.ffiec.gov/NPW (total asset data pulled from Form Y-9Cs filed for fourth quarter 2016 through fourth quarter 2019). See Securities and Exchange Commission, Company Filings, note
[18] See Financial Stability Oversight Council, 2019 Annual Report 84 (Dec. 4, 2019), available at https://home.treasury.gov/system/files/261/FSOC2019AnnualReport.pdf (noting that while aggregate assets for broker-dealers affiliated with bank holding companies has increased steadily since 2015, aggregate assets for broker-dealers affiliated with international banks have continued to significantly decrease since 2010).
[19] See Quarles remarks on supervision, p.8.

custody U.S. GSIBs' scores, which represents an ongoing decline since the formation of the Specified FBOs' IHCs in 2016 (see Figure 1 below).[20]

Figure 1: GSIB Method 1 Scores and Trends

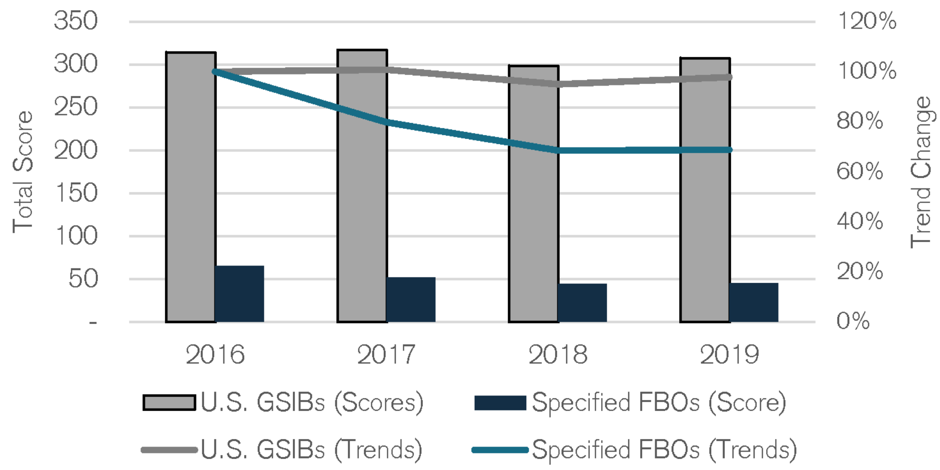
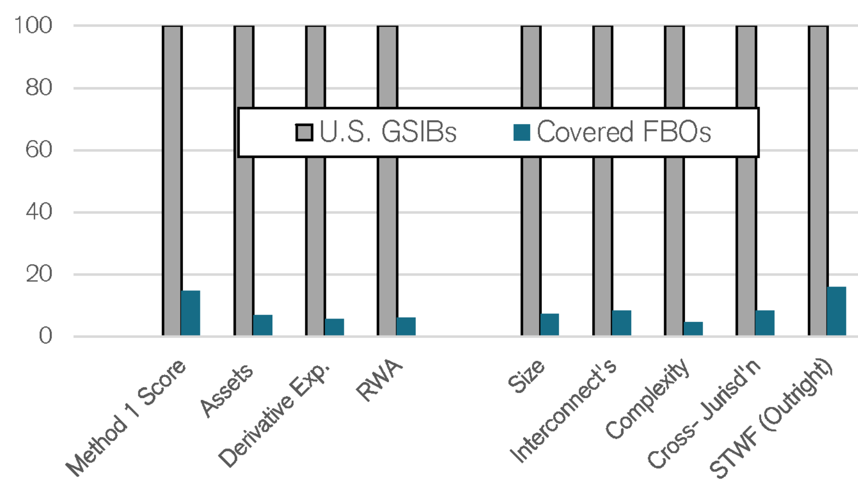


Figure 2 illustrates a broader range of key systemic risk indicators. It shows that the U.S. systemic footprint of the Specified FBOs' IHCs is dwarfed by the scale and risk of the non-processing U.S. GSIBs in every relevant category.[21]

Figure 2: Broad Measures - Systemic Risk Indicators

(US GSIBs indexed to 100)



[20] As public data for the Specified FBOs' CUSOs are not available, we have focused on their IHCs. However, the CUSO data cited by Vice Chair Quarles support this IHC-only analysis.

[21] The one exception to this trend is the GSIB 2 score, which produces spurious and misleading outcomes for the Specified FBOs, which we discuss extensively later in this letter. It is caused by a misleading STWF calculation that is built off two components shown in this chart (i.e. Outright STWF /RWA x 350). Because a small risk factor (STWF) is divided by a very small risk factor (RWA) this ratio becomes large, and spuriously suggests a very large risk. This issue was avoided for the U.S. GSIBs, in part because method 2 was not used as a scoping mechanism, and in part because it was specifically calibrated to achieve a balanced (20% of the total) result for the US GSIBs. This calibration exercise was not afforded to the Specified FBOs.

The enormous discrepancy in size and risk between the U.S. GSIBs and the Specified FBOs means that a failure of a Specified FBO would be fundamentally far less damaging to U.S. financial stability than the failure of a U.S. GSIB. Accordingly, holding the two groups to the same set of resolution expectations is not justified by their risk profiles. In fact, the Proposed Guidance would actually *increase* the burden on the Specified FBOs when compared the expectations in the 2018 FBO Guidance, when it should be seeking ways to moderate or tailor those expectations.

The Proposed Guidance also fails to acknowledge reforms – in both the U.S. and home country jurisdictions – that reduce both the likelihood and consequences of a Specified FBO's failure. During the financial crisis of 2008-09, no significant foreign-owned entity failed and their parent firms provided significant support to their U.S. operations where needed. These entities proved to be stronger than many standalone organizations with no such support. Since the financial crisis, the jurisdictions in which the Specified FBOs are domiciled have strengthened both going- and gone-concern resources. In line with Basel III, these firms now hold more, higher quality capital. They have raised additional TLAC, supporting the credibility of home-country SPOE strategies, and they have provided cash-collateralized support for their U.S. operations in the form of iTLAC long-term debt, which both incentivizes ongoing parental support and provides recapitalization resources (minimizing the risk of public losses) should special resolution be required under the Dodd-Frank Act. These advances are augmented by improved local risk systems, including the creation of robust stress testing capabilities; simplified organizational structures and streamlined business mixes; and affiliate and third-party service arrangements that ensure the continuation of critical business operations under both stressed conditions and resolution.

III. The method 2 GSIB surcharge methodology falsely groups the Specified FBOs together with U.S. GSIBs. The high method 2 scores for the Specified FBOs are spurious and misleading, driven by a flaw in the short-term wholesale funding ("STWF") indicator that dominates and distorts the results when applied to FBOs.

The GSIB method 2 framework was developed by the Board as an alternative method to establish a capital surcharge for US GSIBs (note that method 2 has never been used as a scoping tool, i.e. to determine whether a firm is a U.S. GSIB[22]). The Board's final GSIB methodology rule notes[23] that the method 2 framework was designed to achieve a balanced result among five broad indicators for the U.S. GSIBs, replacing the substitutability indicator included in the internationally agreed method 1 framework with a measure of STWF. It states that "[t]he fixed conversion factor was determined by dividing the aggregate estimated short-term wholesale funding amount by average risk weighted assets for the firms currently identified as GSIBs and calculating the weighted basis points that would be necessary to make the short-term wholesale measure equal to 20 percent of the firm's method 2 score." Because of this calibration, the STWF indicator has generally produced a moderate portion of the method 2 score for the US GSIB group, and today comprises approximately 26% of their total for the non-processing GSIBs.

The Proposed Guidance now proposes to use method 2 for a new purpose (scoping) and apply it directly to a new group of banks (the Specified FBOs). It does not re-estimate the calibration against the other components for this group, a process that was afforded to the U.S. GSIBs to engineer a balanced (20%) result. In fact, when method 2 is applied to the Specified FBOs, the STWF indicator overwhelms the other components, comprising an average of 92% of the total method 2 score.[24] Put another way, the score for the U.S. GSIBs was designed to create an STWF score that was one-quarter of the other four components (20%/80%). When applied naively to the Specified FBOs, this component is more than ten times larger than the other components put together.

As can be seen in Figure 3, the STWF factor is the <u>sole</u> reason that any of the IHCs of the Specified FBOs breach the 250 threshold.

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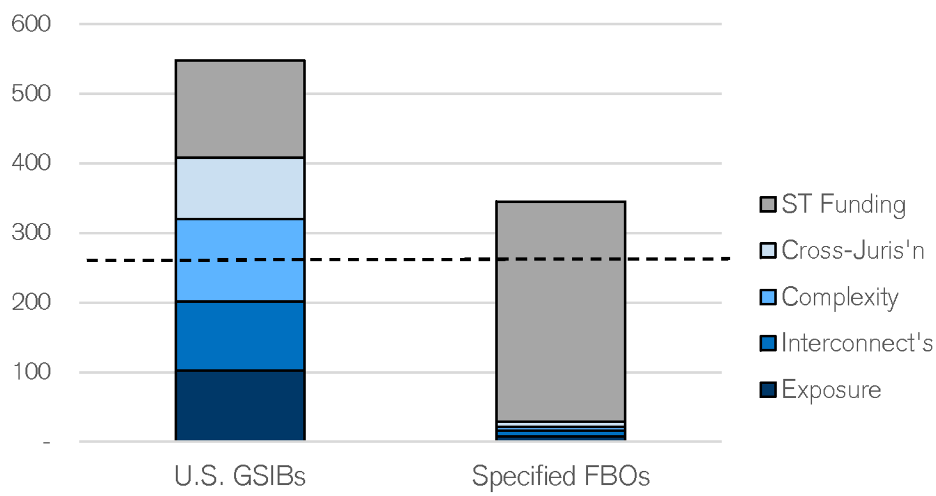
[22] The determination of whether a U.S. BHC qualifies as a GSIB is based solely on the internationally agreed method 1 framework as a scoping tool. See 12 CFR Section 217.402.

[23] See 80 Fed. Reg. 49082 at 49100 - 49101: "The conversion factor was intended to weight the short-term wholesale funding amount such that the short-term wholesale funding score receives an equal weight as the other systemic indicators within method 2 (i.e., 20 percent), and is based upon estimates of short-term wholesale funding levels at the eight bank holding companies currently identified as GSIBs. To calculate its method 2 score, a GSIB would add the short-term wholesale funding score to its other systemic indicator scores, and multiply by two. The final rule adopts the fixed conversion factor, and combines the conversion factor with the proposed doubling. Accordingly, the score would equal 350. This fixed conversion factor was developed using 2013 data on short-term wholesale funding sources from the FR 2052a for the eight firms currently identified as GSIBs under the proposed methodology, the average of 2013 quarterly reported risk-weighted assets, and the year-end 2013 aggregate global indicator amounts for the size, interconnectedness, complexity, and cross-jurisdictional activity systemic indicators. Using these data, the total weighted basis points for the size, interconnectedness, complexity, and cross-jurisdictional activity systemic indicator scores for the firms currently identified as GSIBs were calculated. Given that this figure is intended to comprise 80 percent of the method 2 score, the weighted basis points accounting for the remaining 20 percent of the method 2 score were determined. The fixed conversion factor was determined by dividing the aggregate estimated short-term wholesale funding amount by average risk weighted assets for the firms currently identified as GSIBs and calculating the weighted basis points that would be necessary to make the short-term wholesale measure equal to 20 percent of the firm's method 2 score."

[24] All of the U.S. GSIBs first had to clear a threshold established by method 1 before method 2 was applied. Method 2 STWF was then calibrated to produce a balanced score for this group, based on an average RWA for the US GSIBs that is far larger than the Specified FBOs.

Figure 3: Method 2 GSIB Score Components for US GSIBs and the Specified FBOs



The preamble to the Proposed Guidance asserts that method 2 provides a "comprehensive, integrated assessment of a large bank holding company's ("BHC") systemic footprint". It further asserts that a score of 250 for the IHC of a Specified FBO suggests that the Specified FBO presents "comparable resolvability challenges" to U.S. GSIBs that are also subject to heightened expectations regarding resolution planning.[25] Unfortunately method 2 does not provide a "comprehensive, integrated" assessment of systemic footprint for the Specified FBOs, because of the dominance of this single, flawed factor (STWF). In effect, method 2 just represents the anomalous outcome of a single factor.

The four other metrics used in the method 2 calculation show (appropriately) that the systemic risk for the IHCs of the Specified FBOs is quite low.[26] These other four factors produce just 28 total method 2 points for the Specified FBOs (on average), far below the 250 threshold established in the Proposed Guidance. These indicators also are very low relative to the US. GSIBs and are barely visible in Figure 3. The scores for those other FBO components range from 4.6% to 8.3% of the U.S. GSIB scores (*i.e.*, 92% to 95% lower risk). These factors are also common to the internationally-agreed method 1 calculation, which is shown in Figure 1. These factors are also highlighted in Figure 2, which illustrate plainly the vast difference in risk across all categories between the Specified FBOs and the U.S. GSIBs.

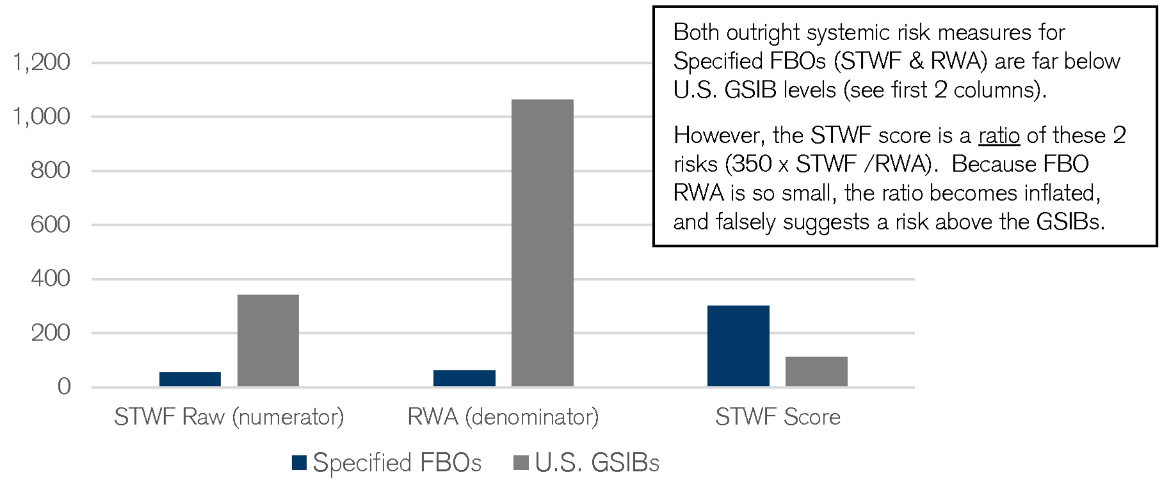
Furthermore, the outsized STWF scores for the Specified FBO's are not indicative of high actual risk levels. Although the STWF score for the Specified FBOs averages 2.3x greater than the U.S. GSIBs, the <u>actual STWF for the Specified FBOs is 84% smaller</u>. Ironically, the primary reason for the high STWF scores is due to the <u>low</u> risk of the Specified FBOs, which inflates the idiosyncratic weighting system of this factor. Specifically, the reduction in the Specified FBOs' systemic risk profiles over the last decade has been accompanied by a massive decline in RWA, as discussed in the prior section. RWAs have dropped both because of large cuts in balance sheet size and because of a shift to a higher quality asset mix, especially high-

[25] Proposed Guidance at 15452.

[26] Under method 1, the surcharge score of a GSIB is calculated based on the following five categories of the Basel Committee's assessment methodology: size, interconnectedness, substitutability, complexity and cross-jurisdictional activity. Method 2 is similar, except that it replaces substitutability with STWF.

quality liquid assets ("HQLA") that have low RWA. While both of these changes imply a large reduction in systemic risk, they perversely inflate the STWF score (because they produce a very small RWA, which is used in the denominator for the SWTF calculation). Because the RWA of the Specified FBOs' IHCs is just 6% that of the non-processing U.S. GSIBs, the effective weighting for a unit of STWF funding risk is 16.7x larger for the IHCs of the Specified FBOs. This massively inflate the STWF score (and thereby the method 2 score) and is the sole reason why the Specified FBOs are scoped into the same category as the U.S GSIBs.

Figure 4: Short-Term Wholesale Funding Scoring Calculations



This anomalous ratio effect did not cause insuperable problems for the original purpose of method 2, which was to compute a surcharge. In the final rule, the Agencies noted that the RWA denominator would be canceled out when multiplied by RWA to create the absolute amount of surcharge.[27] Indeed, that was one of the Board's stated aims, to create a capital incentive to reduce the outright amount of STWF for the U.S. GSIBs.[28] However, these arguments do not apply when method 2 is used for a standalone purpose of scoping. Indeed, if this approach is not corrected, method 2 could even produce a higher score for a tiny, low risk, $1mm BHC than it would for the largest GSIB. This would clearly be inappropriate outcome for categorizing GSIBs.[29]

To summarize: we believe that these problems are fatal for method 2 to provide a balanced scoping framework. The GSIB 2 method was designed and calibrated specifically for U.S. GSIBs, but does not produce fair or accurate results in this context. First, method 2 is not a

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[27] In the final rule describing the method 2 system, the agencies noted that the use of RWA in the denominator would not pose fatal calculation issues because these the calculations would then be used solely as a surcharge tool applied against an RWA balance. The RWA factors would then cancel out for this portion of the calculation. This effect is not present when the GSIB 2 method is used on a standalone basis, as a scoping tool.

[28] *See* 80 Fed. Reg. 49082 at 49101: "A fixed conversion factor is intended to facilitate one of the goals of the incorporation of short-term wholesale funding into the GSIB surcharge framework, which is to provide incentives for GSIBs to decrease their use of this less stable form of funding. To the extent that a GSIB reduces its use of short-term wholesale funding, its short-term wholesale funding score will decline, even if GSIBs in the aggregate reduce their use of short-term wholesale funding." This approach differs from the traditional method 1 weighting system which is driven by the relative score of a GSIB as opposed to its peer group.

[29] The hypothetical case included in the letter submitted by BPI, SIFMA and the ABA ("the joint trades' letter") illustrates the challenges of applying this framework to the IHCs of the Specified FBOs. Imagine a very small entity that only holds a single asset: $100 of treasury bills (zero RWA). Such an entity would produce an infinite STWF weight and an infinite method 2 GSIB score, because RWA is placed in the denominator. This $100 entity would far outrank even the largest GSIB in terms of systemic risk according to this methodology.

"comprehensive, integrated assessment"; the scores are driven almost entirely by a single factor (STWF). Second, that factor produces spurious and misleading results when it is applied to a set of far smaller and less risky institutions, which have different business models and which serve different purposes. This method was originally designed as a surcharge calculation for the U.S. GSIBs; it was not intended to be used as a scoping mechanism or applied to firms outside of the U.S. GSIB category. The Specified FBOs also did not benefit from any calibration to achieve a balanced result among the indicators, as the U.S. GSIBs did.[30]

Applying the method 2 STWF score to the IHCs of the Specified FBOs also has other flaws that are exacerbated by the ratio calculation artifacts noted above. In the preamble to the Proposed Guidance, the Agencies explained that the "STWF factor indicates the potential for significant liquidity outflows and large-scale funding runs associated with STWF in times of stress."[31] However, there are longstanding concerns about weighted STWF ("wSTWF") as a measure of liquidity risk, particularly in the context of FBOs.

First, wSTWF focuses on liabilities and does not adequately consider the tenor, liquidity and other characteristics of the assets funded by those liabilities. Liquidity risk is fundamentally about the appropriate matching of assets and liabilities. Funding short dated assets like HQLA with STWF is often a lower risk strategy than funding them with a mismatched long-dated tenor. This type of net position does not pose significant risk even in the case of a "run"; a bank under stress could easily meet claims that are invested in HQLA. These activities do not pose significant overall liquidity concerns, and are common in the business models of the Specified FBOs.

The Liquidity Coverage Ratio ("LCR") is perhaps the most widely used liquidity metric, and provides a good test for this type of asset-liability comparison. The average LCR of the IHCs is 160%,[32] well above the average of 121% for the U.S. benchmark group. The figure shows that the modest amounts of wholesale funding issued by the Specified FBOs are well covered by HQLA and do not pose any special systemic threat. Indeed, the IHCs actually carry roughly triple the headroom over the 100% LCR benchmark than the U.S. benchmark group.

Second, the categorization of the inter-affiliate transactions in the wSTWF calculation is not appropriate for FBOs, which often invest global dollar liquidity from offshore entities into their U.S. entities. The wSTWF system categorizes parent deposits as a highly weighted (i.e., highly runnable) class because the parent is categorized as a "financial investor." The concern that reliance on STWF from non-U.S. affiliates creates a high "run risk" for the U.S. operations is misplaced in this case. FBOs have strong reputational and economic incentives to maintain funding in their U.S. operations, and the history of support is strong. FBOs have substantial investments in their U.S. subsidiaries and these investments have generally increased since the financial crisis in terms of both capital requirements and the new TLAC requirements. These considerations provide a very strong incentive for FBOs to support their subsidiary operations and make them fundamentally different from a third-party investor.

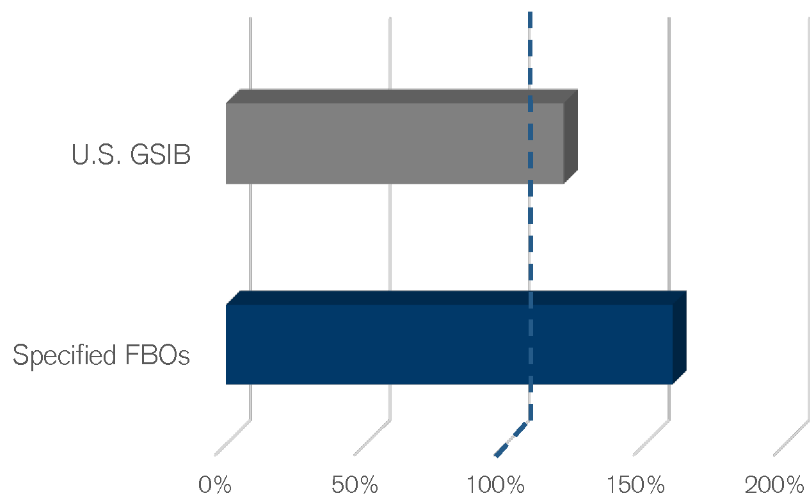
[30] These issues are also discussed extensively, especially in the Appendix to the joint trades' letter.

[31] Proposed Guidance at 15452. Under method 2, the STWF score is calculated by scaling an institution's wSTWF against its risk-weighted assets ("RWA").

[32] This figure is the average for two of the three Specified FBOs. Credit Suisse USA does not report LCR until YE 2020; however, on a global basis, the firm reports a conservative LCR of 198% (as at YE 2019).

Overall, the relevant risk measures show the Specified FBOs to be conservatively managed with respect to liquidity. The absolute size of STWF is 84% below that of the U.S. GSIBs. The LCR statistics (see Figure 5 below) show the Specified FBOs run a conservative net profile, and regulators have numerous other tools to address this risk. The liquidity profile of the Specified FBOs simply does not present the disproportionate concern suggested by their outsized method 2 scores.

Figure 5: Liquidity Coverage Ratio ("LCR") – Comparative Profiles



For these reasons, the GSIB method 2 framework is not an appropriate or fair method to categorize IHCs. We also note that the method 2 has never been previously used as a scoping mechanism in any rulemaking or guidance, and has also not been previously applied to FBOs. [33]

As discussed below, the most obvious and reasonable solution would be to adopt a scoping mechanism based on the tailoring categorizations that the Agencies adopted last year in the final FBO tailoring rules. If the Agencies decided to retain some form of GSIB scoring methodology as a scoping mechanism, they could choose from among the several alternatives we propose in the next section.

[33] The determination on whether a U.S. BHC qualifies as a GSIB is based solely on the internationally agreed method 1 framework as a scoping tool.

IV. The Agencies should adopt an alternative scoping mechanism given the problems with using the method 2 framework. The recently finalized tailoring categories are a clearer and more logically consistent approach to capturing the risk of the Specified FBOs, and should be adopted as the scoping mechanism for application of the Proposed Guidance. Specifically, we recommend that the Agencies restrict the application of this guidance to FBOs that qualify as Category II IHCs. However, if the Agencies decide to adopt a scoping framework based on an IHC's GSIB score, we suggest alternatives to the method 2 approach that address its methodological flaws.

The Proposed Guidance's adoption of a scoping mechanism based on the method 2 framework is inconsistent with the approach the Agencies adopted in the final tailoring rules. In the preamble to the Board's domestic EPS tailoring proposal in 2018, it requested comment on whether it should assess the systemic risk of institutions based on one of two scoping mechanisms: first, a categorization approach based on size and four specific risk-based indicators ("RBIs"), or second, an alternative based on one of the two GSIB identification methodologies (method 1 and method 2).[34] Following a notice-and-comment process (on the domestic tailoring proposal and the FBO tailoring proposal) that involved significant public input[35], the Agencies determined that its proposed size and RBI-based categorization scheme would be a more appropriate way of capturing the risk profile and systemic footprint of both domestic and foreign firms when it finalized the rules in late 2019.[36]

The tailoring framework placed the U.S. GSIBs in Category I and made them subject to the most rigorous prudential requirements.[37] The framework placed the IHCs of the largest international banks into lower risk categories, with all three Specified FBOs falling into Category III, a decision that reflects their lower systemic risk and led to some moderation of prudential requirements for those firms.[38] The Agencies noted this size and RBI based framework "better align[ed] the prudential standards applicable to large banking organizations with their risk profiles, taking into account the size and complexity of these banking organizations as well as their potential to pose systemic risk."[39]

Yet despite recently rejecting the use of a GSIB scoring methodology as a scoping mechanism for the application of interagency capital and liquidity rules and the Board's enhanced prudential standards, the Agencies made the puzzling decision to use a GSIB score to scope FBOs into the Proposed Guidance. Aside from the serious methodological flaws embedded in the method 2 framework, this decision is inconsistent with the approach that the Agencies have

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[34] EPS Domestic Tailoring Proposal, 83 Fed. Reg. at 66032

[35] See EPS Tailoring Rule, 84 Fed. Reg. at 59232.

[36] See Id. at 59235 ("The final rule adopts the indicators-based approach for applying Category II, III, or IV standards to a banking organization, as this approach provides a simple framework that supports the objectives of risk sensitivity and transparency"); *see also* 84 Fed. Reg. at 59036 ("The final rule adopts the indicators-based approach for applying Category II, III, or IV standards to a banking organization, as this approach provides a simple framework that supports the objectives of risk sensitivity and transparency").

[37] 84 Fed. Reg. 59035 ("Under the final rule, and unchanged from the domestic proposal, the most stringent prudential standards apply to U.S. GSIBs under Category I, as these banking organizations have the potential to pose the greatest risks to U.S. financial stability"); 84 Fed. Reg. 59233 ("Under the final rule, and unchanged from the domestic proposal, the most stringent capital and liquidity requirements apply to U.S. GSIBs and their depository institution subsidiaries under Category I, as these banking organizations have the potential to pose the greatest risks to U.S. financial stability").

[38] EPS Tailoring Rule, 84 Fed. Reg. at 59050. We note that the IHC is the focus of a U.S. resolution plan, the Proposed Guidance utilized the method 2 score of the IHC, and the EPS rule applies capital and liquidity requirements to the IHC based on the score of the IHC alone, not CUSO.

[39] EPS Tailoring Rule, 84 Fed. Reg. at 59033–59034.

adopted for other prudential rulemakings. It is not clear why the scoping mechanism for resolution planning purposes should be different from the approach taken in areas such as capital and liquidity, and why the Agencies would choose to add unnecessary complexity to their scoping regimes when they have highlighted the importance of simplicity where possible.

It also is logically inconsistent with the tailoring exercise at a more fundamental level: application of the tailoring rules firmly conclude that the Specified FBOs (each with Category III IHCs) pose less of a systemic threat to the U.S. financial system than the US GSIBs (all of which are Category I firms).[40] It is unclear then why the Agencies felt the need to "more closely align"[41] the resolution planning expectations for the Specified FBOs with the U.S. GSIBs (and thereby imposing more onerous resolution planning requirements) after formally recognizing that the former group poses a significantly lower systemic risk. In fact, as we note throughout this letter, a more logical approach would be for the Agencies to moderate the 2018 FBO Guidance requirements through further tailoring, rather than imposing new requirements on the Specified FBOs.

A more consistent and coherent approach would therefore be for the Agencies to adopt a scoping mechanism based on the recently adopted EPS tailoring categories. This scoping mechanism should ensure that there is a clear and meaningful distinction between the resolution planning expectations for firms in the highest categories (Category I firms) and all other firms (note that in our view an IHC-based categorization for FBOs would be more appropriate than one based on the combined U.S. operations ("CUSO") level given that the bulk of resolution plan requirements and expectations are IHC-based).

Should the Agencies instead choose to retain a more idiosyncratic scoping mechanism based on the GSIB scoring framework, then we suggest they consider one of the following amendments to the proposed method 2 approach:

- The Agencies could cap the STWF component as a share of the total method 2 score. Caps have been used elsewhere to prevent anomalies in GSIB surcharge scoring.[42]
- The Agencies could index the STWF component to absolute STWF values, which would mitigate the bizarre ratio effects discussed in the previous section.
- The Agencies could adopt the internationally agreed method 1 approach as a scoping mechanism, which does not lead to the same perverse methodological outcomes for the IHCs of the Specified FBOs. If method 1 produced a result of 130 or greater for the IHCs of the Specified FBOs, then those institutions could be legitimately grouped with the U.S. GSIBs (consistent with the Financial Stability Board's standards). This would be our preferred approach if the Agencies were to retain a GSIB scoring framework as the scoping mechanism (as reflected in the table below).

[40] It is notable that Category I firms are designated as such by the method 1 GSIB score. Yet the Agencies to do not propose method 1 as a determination framework for the Proposed Guidance.
[41] Proposed Guidance, p. 8.
[42] The substitutability scores of a few U.S. GSIBs were seen to be disproportionately large, and the Bank for International Settlements capped them to prevent a disproportionate impact on the overall measure of systemic risk, saying that "the substitutability category had a greater impact on the assessment of systemic importance than was intended." *See* Basel Committee, Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement (July 2013), p.1, available at http://www.bis.org/publ/bcbs255.pdf.

Summary of Recommendations

Scoping Criteria	**Guidance that should apply**	
	2019 Domestic Guidance/Proposed Guidance (less extraterritorial DER/PCS expectations for FBOs)	**Firm-specific guidance (i.e. as applicable to “second-wave” filers)**
FBO: Category II IHC or IHC with Method 1 Score ≥ 130 **BHC:** Category I or II BHC	☑	
FBO: Category III IHC **BHC:** Category III		☑

Note: if the Agencies choose to adopt a method 2 framework approach to scoping, we propose alternative ways of calculating the method 2 score for IHCs in section IV.

V. The Specified FBOs pose a vastly lower systemic risk than the U.S. GSIBs, a fact that would be reflected by a fairer scoping mechanism. Expectations for the Specified FBOs should be tailored to reflect their lesser risk and to achieve a better balance between home and host jurisdiction requirements. At a very minimum, the requirements for the Specified FBOs should not go beyond the expectations contained in the 2018 FBO Guidance *i.e.* the extraterritorial DER and PCS requirements should be removed.

We are deeply concerned by the Proposed Guidance's enhanced expectations with respect to PCS and DER requirements. In our view this is wholly inappropriate given the declining risk profile of the Specified FBOs. We also share the concerns raised in the letter submitted by BPI, SIFMA and the ABA with respect to the appropriateness of the Proposed Guidance's potential extraterritorial impact. The Proposed Guidance would extend expectations beyond the resolvability of a Specified FBO's U.S. material entities (as contemplated by Title 1 of Dodd-Frank) to out-of-scope market activities covered by home-country regulatory frameworks. This extraterritorial scope is inappropriate, and cuts against Vice Chair Quarles' remarks emphasizing the need for a greater balance between home and host resolution authorities (see Section VII of this letter for more detail).

Proposed Derivatives and Trading (DER) expectations

The proposed DER expectations would require extensive information related to Specified FBOs' derivatives and non-derivatives trading activities, including trades booked overseas, in addition to requiring a vast monitoring and reporting framework in the U.S. This is not warranted both for reasons of principle, as well as reasons of practical importance (derivatives exposure for the Specified FBOs averages 94% below the U.S. GSIBs).[43] In addition, the Proposed Guidance would require the Specified FBOs to conduct additional portfolio segmentation analysis and require detailed analysis of strategies to de-risk derivatives portfolio of surviving derivatives subsidiaries in a resolution scenario. Lastly, the Agencies have proposed detailed information on the booking practices of Specified FBOs, including those conducted in non-U.S. affiliates.

We have a number of concerns about these expanded expectations. First, the Proposed Guidance expands the existing scope of the DER expectations to cover derivatives and non-derivatives trading activities in non-U.S. affiliates. In our view, the Agencies should limit the scope of the Proposed Guidance to only U.S. entities in keeping with the scope of the Title 1 requirements. Activities in non-U.S. affiliates fall under the remit of home and other host regulators who can provide this information directly to the Agencies. This approach would be in keeping with the message of cross-border cooperation expressed in the preamble to the Proposed Guidance and in Vice Chair Quarles' "Brand Your Cattle" remarks. We would welcome an opportunity to discuss any specific concerns the Agencies may have with regard to activities booked into non-U.S. affiliates.

The Proposed Guidance also introduces new expectations in connection with the booking model that would require the Specified FBOs to enhance booking frameworks and reporting capabilities to cover DER activities "conducted on behalf of the firm, its clients or counterparties that are originated from" or "traded through" a U.S. entity, even if booked into a non-U.S. affiliate. It is important to stress that the shift by FBOs to book significant portion of their

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[43] Total derivative exposure data for the Covered FBOs and the non-processing U.S. GSIBs is from Form FR Y-15, Q4 / 2019.

derivatives activities into non-U.S. entities is a long-established practice. These booking models were put in place mainly to reduce systemic risk in U.S. operations in response to regulatory feedback. U.S. DER activities booked into a non-U.S. entity represent minimal risk to U.S. operations since these trades would not typically be unwound due to the IHC's bankruptcy. As a result, any unwinding of these positions would be done by the entity who carries the risk on the books outside the United States. In our view, the Agencies should remove requirements that would require the local Recovery and Resolution Office ("RRO") to establish reporting frameworks for activities in non-U.S. entities.

Proposed Payment, Clearing and Settlement (PCS) expectations

The expectations pertaining to PCS capabilities would also subject the Specified FBOs to standards that are principally the same as, and in some even more far-reaching than, the PCS expectations for U.S. GSIBs. Similar to the Proposed Guidance for DER activities, these expectations would also create issues of extraterritoriality and would duplicate information already provided in the financial market utilities ("FMU") playbooks that Credit Suisse provided as part of its 2018 resolution plan submission.[44] We also have several concerns about these new expectations that we would like to discuss with the Agencies.

First, the Proposed Guidance would require identification and mapping of PCS services to key clients and descriptions of the range of contingency actions that the firm take may take concerning its provision of intraday credit to key clients of the firm's U.S. operations. However, unlike the U.S. GSIBs, Credit Suisse has a very limited role in this space and the majority of our clients most likely have contingency plans in case of service disruptions. We would like to discuss and understand the concerns of the Agencies and what additional information they expect us to provide beyond what was provided in the 2018 Resolution Plan. We would also note that most of the U.S. clients that receive indirect access to FMU services through one of the Specified FBOs also maintains relationships for those same services with the U.S. GSIBs. If the service was disrupted due to the Specified FBO experiencing distress, these clients would continue to have access to the FMU through their other relationships. As a result, we fail to see how these provisions will help enhance the operational resiliency of the Specified FBOs in the U.S. and thus the Agencies should reconsider the merit and scope of applying this expectation to the Specified FBOs.

Second, the Proposed Guidance would create standards for mandate the Specified FBOs to address the potential impact of any disruption to, curtailment of, or termination of such direct and indirect relationships and discuss alternative arrangements. Our reading of the proposed expectations suggests that the Agencies are asking the Specified FBOs to contemplate a scenario in their resolution strategy where they lose a key FMU or key agent bank. This, however, appears to contradict language in other sections of the guidance which appear to rule this scenario out. The Agencies should clarify this contradiction.

Third, the Proposed Guidance requires the Specified FBOs to map U.S. material entities, critical operations, core business lines and key clients of the firm's U.S. operations to key FMUs and key agent banks, including FMUs and agent banks that are accessed indirectly through a non-U.S. affiliate, and provide a playbook for each such FMU and agent bank. Credit Suisse's

[44] Credit Suisse Group AG, 2018 U.S. Resolution Plan.

2018 Resolution Plan provided mapping of all U.S. material entities to critical operations and core business lines in the U.S. This information, to be refreshed before the next submission in which it is required, is more pertinent for resolvability of our U.S. operations. The issue of non-U.S. affiliate's ability to maintain access to key FMUs and key agent banks to support those relationships is addressed in our Group Resolution Plan. Requiring the U.S. Resolution Plan to address this topic as well imposes inappropriate expectations with respect to our non-U.S. activities. The scope of the guidance should therefore apply to only U.S. material entities, CBLs and critical operations domiciled in the U.S. and resolved under the U.S. Bankruptcy Code.

Lastly, we would reiterate the need to have a holistic dialogue of our operational footprint with the Agencies that will lead to improved cooperation and better outcomes for mitigating any concerns regarding our resolvability capabilities.

VI. The Agencies should permit the Specified FBOs to implement Contractually Binding Mechanisms (CBM) structures that accord with their U.S. resolution strategy and creditor profile.

The Proposed Guidance includes several questions about the contractually binding mechanisms ("CBMs") that filers have developed to minimize the likelihood that creditor challenges in bankruptcy would impair a filer's ability to provide contributable resources as planned. The Proposed Guidance notes that the Specified FBOs have developed different CBM approaches, and asks for feedback on the relative merits of these approaches.

In our view, it would be counterproductive for the Agencies to impose a preferred approach to the provision of support in the final guidance. Rather, as long as a Specified FBO's CBM meets the policy goal outlined by the Agencies, that FBO should be able to implement a CBM designed with that FBO's U.S. structure, and its IHC's particular risk to successful creditor challenge, in mind. The policy goal for a CBM is expressed in the 2018 FBO Guidance and the Proposed Guidance in the following way:[45]

> If [a filer's] plan provides for the provision of capital and liquidity by a U.S. material entity (e.g., the U.S. IHC) to its U.S. affiliates prior to the U.S. IHC's bankruptcy filing (Support), the plan should also include a detailed legal analysis of the potential state law and bankruptcy law challenges and mitigants to providing the Support. Specifically, the analysis should identify potential legal obstacles and explain how the firm would seek to ensure that Support would be provided as planned.

As part of its 2018 U.S. resolution plan, Credit Suisse developed a CBM designed to provide a legal backstop to ensure the provision of contributable resources and to minimize the risk of successful creditor challenge. Credit Suisse developed this CBM in light of its particular creditor profile and resolution strategy. The CBM contemplates Credit Suisse's IHC retaining sufficient liquidity to pay unaffiliated creditor claims substantially in full, giving such creditors little incentive to claim in bankruptcy – an option unavailable to a U.S. GSIB whose top-tier BHC has a broad range of third-party creditors. Additional protection against potential creditor challenges is provided by the implementation of the CBM in BAU, and structuring part of the contractual arrangements as a qualified financial contract to take advantage of certain safe harbors in the Bankruptcy Code. Credit Suisse conducted and documented a thorough review of potential challenges to the provision of support with help from external bankruptcy counsel – and this review should be the starting point for any evaluation of the efficacy of the CBM.

The efficacy of the CBMs of the Specified FBOs are also inherently less likely to be tested than those of the U.S. GSIBs. The public sections of each of the four FBOs subject to the 2018 FBO guidance (which include the three Specified FBOs) note that each firm's preferred resolution strategy is global SPOE.[46] Even viewed as a backup strategy, resolution under the Bankruptcy Code is unlikely given that (i) entry into bankruptcy proceedings would provide the Board a necessary condition for the conversion of internal TLAC debt,[47] which should

[45] Proposed Guidance, p. 54. 2018 FBO Guidance, pp. 14-15.

[46] Barclays, p. 5 (https://www.federalreserve.gov/supervisionreg/resolution-plans/barclays-plc-1g-20180701.pdf); Credit Suisse, p. 7 (https://www.federalreserve.gov/supervisionreg/resolution-plans/credit-suisse-1g-20180701.pdf); Deutsche Bank, p. 3. (https://www.federalreserve.gov/supervisionreg/resolution-plans/deutsche-bank-1g-20180701.pdf); and UBS, pp. 6-7 (https://www.federalreserve.gov/supervisionreg/resolution-plans/ubs-1g-20180701.pdf).

[47] 12 CFR §252.163.

be viewed as cash-collateralized support from the foreign parent; and (ii) resolution of an IHC in bankruptcy – especially where the IHC's only material creditor is the foreign parent – is unnecessary, expensive, and time-consuming. These factors provide a strong incentive for the foreign parent to support the IHC to avoid bankruptcy.

As the Agencies noted in the feedback letters to the Specified FBOs on their 2018 U.S. Resolution Plans, "[t]he preferred outcome for a failing foreign covered company is a successful home country resolution that prevents risks to financial stability in the United States…".[48] Permitting the Specified FBOs to use CBM structures that accord with their U.S. resolution strategies and creditor profiles can further this objective by limiting the chance that a prescribed structure will dis-incentivize home country support. Permitting flexibility also allows for the development of alternative structures over time, including to address changes in the structure or operations of the Specified FBOs or their U.S. operations, or the regulatory requirements or expectations of home or host regulators.

[48] Board and FDIC, "Resolution Plan Feedback Letter to Credit Suisse Group, A.G.," (Dec. 20, 2018), p. 4; Board and FDIC, "Resolution Plan Feedback Letter to Barclays Bank PLC," (Dec. 20, 2018), p. 4; Board and FDIC, "Resolution Plan Feedback Letter to Deutsche Bank AG," (Dec. 20, 2018), p. 4

VII. The Agencies should shift to a home-host approach to resolution planning that balances the need for certainty at the host jurisdiction (here the U.S.) with the need for flexibility at the home jurisdiction.

As noted throughout this letter, the Specified FBOs pose a greatly reduced systemic risk to the U.S. financial system than they did during the 2008-09 financial crisis. They are now vastly smaller, less complex, and also far less risky than the U.S. GSIBs. Today they are capable of being rapidly resolved in an orderly way, thanks to the development of global SPOE plans and massive TLAC resources. This global resolvability is augmented by local plans and local bail-in-able resources in the form of iTLAC.

Unfortunately, the Proposed Guidance continues to adopt an unbalanced, "standalone-plus" philosophy that pervades much of the current U.S. regulatory and supervisory framework for FBOs. This approach has led to various super-equivalent outcomes for FBOs, such as capital and TLAC ratios that often significantly exceed U.S. GSIB and regional bank ratios. Excessive resource preplacement can lead to lower resilience at the group level[49] and impair international cooperation. It can also create a precedent that prompts other nations to replicate those requirements, reducing flexibility for U.S. headquartered firms. In our view, the heavy resource demands of this approach has contributed significantly to the decline of FBO competitors in the United States marketplace, due to a large disparate cumulative regulatory burden.

We believe that it would be better to adopt a more balanced approach both in resolution and in other areas of prudential regulation and supervision. As Vice Chairman Quarles put it in his "Brand Your Cattle" speech:

> "the host regulator should also recognize that it is ultimately in its interest for the SPOE resolution of the foreign bank to be successful and, given the uncertainty of the circumstances or location of losses that emerge in an actual stress, adequate flexibility for the parent to deploy resources where needed is likewise in the host regulator's interest."[50]

The U.S. approach to FBO regulation, including the Proposed Guidance, does not adequately reflect these important priorities. Indeed, an excessively 'localist' approach, with stringent and often duplicative host country requirements, can impede this flexibility and the execution of a SPOE parent firm resolution plan.

Therefore, we encourage the Agencies to tailor their resolution planning expectations for the Specified FBOs. In the first place, that means recognizing that the resolution plans for the U.S. operations of the Specified FBOs are, ultimately, backup plans to their global parent's plans. In practice, such recognition should mean that the U.S. resolution plan of a Specified FBO should be held to a lower standard than that applied to evaluating the plan of a U.S. GSIB – whose plan is its primary, parent-level resolution strategy.[51] Thereafter, the Agencies should begin a dialogue with the Specified FBOs so that the firms may understand any ongoing concerns about the resolvability of their U.S. operations and any concerns that they have about

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[49] D. Wilson Ervin, "Understanding 'ring-fencing' and how it could make banking riskier," Brookings Institution Series on Financial Markets and Regulation, February 7, 2018. Available at: https://www.brookings.edu/research/understanding-ring-fencing-and-how-it-could-make-banking-riskier/.

[50] Vice Chair for Supervision Randal K. Quarles, "Trust Everyone—But Brand Your Cattle: Finding the Right Balance in Cross-Border Resolution" (May 16, 2018).

[51] This argument is separate to the logic set out above that describe the importance of tailoring for the much smaller systemic footprint of the Specified FBOs, and further strengthens the need for tailoring here.

the viability/credibility of their home country strategy. Consistent with Vice Chairman Quarles' remarks, the Agencies should also increase their information sharing and cooperation with the Specified FBOs' home country regulators, with a view to moving towards more recognition of the efficacy of home country plans.

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We would like to thank the Agencies for the opportunity to comment on the Proposed Guidance. If you have any questions regarding our comments, please contact the undersigned or Peter J. Ryan (peter.ryan@credit-suisse.com).

Sincerely,

Jason F. Alfano
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D. Wilson Ervin
Vice Chairman, Credit Suisse Holdings (USA)