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Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Re: Proposed Amendments To Regulation Y To Require Large Bank Holding Companies To Submit Capital Plans (Docket No. R-1425)

Dear Ms. Johnson:

The Institute of International Bankers ("IIB") appreciates the opportunity to comment on the amendments to Regulation Y proposed by the Board of Governors of the Federal Reserve System (the "Board") to require large bank holding companies to submit capital plans on an annual basis and to provide prior notice to the Federal Reserve under certain circumstances before making a capital distribution.[1] The proposed rule would apply to every top-tier bank holding company domiciled in the United States that has $50 billion or more in total consolidated assets (the "$50 Billion Asset Threshold"). As of March 31, 2011, there were 35 such BHCs, of which 9 were owned by foreign banks, each of which is a member of the IIB.

Our comments (i) address considerations that are specific to foreign-owned Large U.S. Bank Holding Companies, (ii) recommend that the $50 Billion Asset Threshold be measured over the previous four quarters of financial results (rather than two as proposed), (iii) discuss the importance of coordinating effectiveness of the Proposal with the regulations to be promulgated under Section 165(i) of the Dodd-Frank Act, (iv) recommend modifications to the proposed timeframes related to the submission, review and updating of capital plans, and (v) support the adoption of a 1-year transition period for those Large U.S. Bank Holding Companies that were not included in the Federal Reserve's recently completed Comprehensive Capital Analysis and Review ("CCAR").

[1] 76 Fed. Reg. 35351 (June 17, 2011) (the "Proposal"). Capitalized terms used in this letter that are not otherwise defined in this letter have the meanings given in the Proposal.

Considerations Specific To Foreign-Owned Large U.S. Bank Holding Companies

Sound risk management calls for robust systems and processes that incorporate forward-looking projections of revenue and losses to monitor and maintain an institution's internal capital adequacy. We strongly support the view embedded in the Proposal that the level of detail and analysis required for a capital plan varies based on the characteristics of each institution preparing the plan, including its size, complexity, risk profile, and scope of operations, and that capital planning requirements should be sufficiently flexible to adjust to changing conditions over time.

It is also essential to recognize that, in contrast to U.S.-headquartered Large U.S. Bank Holding Companies, each of which issues publicly-traded shares and is the ultimate, controlling organization within its group, foreign-owned Large U.S. Bank Holding Companies are wholly-owned U.S. subsidiaries of banking organizations that are headquartered outside the United States. Among other things, these differences result in foreign-owned Large U.S. Bank Holding Companies taking into account in the normal course of their capital planning considerations that are not relevant to their U.S.-headquartered counterparts, such as the financial condition of their parent foreign bank and/or developments in the parent foreign bank's home country. In addition, as privately held U.S. subsidiaries of foreign-headquartered banking organizations, they approach capital distribution questions from a perspective that is significantly different from that of their publicly traded U.S.-headquartered counterparts.

We request that the Board clarify in connection with finalizing the Proposal (i) the relevance of these considerations to foreign-owned Large U.S. Bank Holding Companies' capital plans (once they become subject to the prescribed capital planning requirements[2]) and (ii) the significance of consultation and coordination with appropriate home country supervisory authorities to the capital planning and review process.

The $50 Billion Asset Threshold

As discussed in the Board's June 10th press release, the Proposal is intended to institutionalize and expand to all Large U.S. Bank Holding Companies the CCAR, which covered 19 domestically-headquartered bank holding companies that participated in the Treasury Department's Capital Assistance Plan. For purposes of identifying the scope of the capital planning requirement, the $50 Billion Asset Threshold is based on the average of a U.S.-domiciled bank holding company's total consolidated assets over the course of the previous two calendar quarters, as reflected on the bank holding company's consolidated financial statements as reported to the Federal Reserve on Form FR Y-9C.

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[2] Reflecting the provisions of Section 171(b)(4)(E) of the Dodd-Frank Act, proposed Section 225.8(b)(1)(i) of Regulation Y postpones to July 21, 2015 the effective date of the capital planning requirement for any Large U.S. Bank Holding Company subsidiary of a foreign banking organization that has relied on the Board's Supervision and Regulation Letter SR 01-01 (as in effect on May 19, 2010).

We do not object to $50 billion total consolidated assets as the basis for identifying Large U.S. Bank Holding Companies for purposes of the capital planning requirement. However, to minimize the prospect that a U.S.-domiciled bank holding company would become subject to the capital planning requirement solely as a result of transient fluctuations in its total consolidated assets, we recommend that the test be based on the average of a U.S.-domiciled bank holding company's total consolidated assets over the course of the previous four quarters, as reported on Form FR Y-9C.

Capital Planning and Stress Testing:
Coordination with Section 165(i) of the Dodd-Frank Act

The Proposal contemplates that the capital planning required of a Large U.S. Bank Holding Company would include a range of stressed scenarios, including any provided by the Federal Reserve and at least one developed by the Large U.S. Bank Holding Company. It is intended that a Large U.S. Bank Holding Company would incorporate into the capital plan it prepares in accordance with the requirements of Regulation Y the results of the stress testing it conducts pursuant to Section 165(i)(2) of the Dodd-Frank Act, but the Board does not expect that these results will be sufficient to address all relevant adverse outcomes that should be covered in a satisfactory capital plan under Regulation Y. We have three comments on this aspect of the Proposal:

- First, it does not appear to take into account the unique circumstances of foreign-owned Large U.S. Bank Holding Companies. As discussed above, as foreign-owned entities they are subject to certain considerations that do not apply to their U.S.-headquartered counterparts. With specific regard to stress testing, the foreign bank parent may require its Large U.S. Bank Holding Company subsidiary, by virtue of its operating as part of the larger, global banking group, to incorporate into its stress testing certain scenarios prescribed by the foreign bank, or the Large U.S. Bank Holding Company itself may seek to include in its stress testing scenarios related to the foreign bank or the foreign bank's home country. Stress testing requirements and standards prescribed by the foreign bank's home country supervisory authority may also be relevant to the Large U.S. Banking Organization's stress tests. We request that the Board reflect these considerations in finalizing the Proposal.

- Second, we request that the Board confirm in connection with adopting the final rule that the stress testing called for under the final rule is subject to, and should be conducted in accordance with the relevant provisions of, the final interagency "Guidance on Stress Testing for Banking Organizations with Total Consolidated Assets of More Than $10 Billion" that is ultimately adopted based on the proposed guidance published for comment this past June.[3]

[3] *See* 76 Fed. Reg. 35072 (June 15, 2011).

- Third, because of the close relationship between the stress testing that will be required under Section 165(i) and that to be undertaken in connection with capital planning under Regulation Y, we recommend that the effectiveness of the capital planning requirements be structured to coincide with the effectiveness of whatever rules are adopted under Section 165(i). Failure to do so may result in Large U.S. Bank Holding Companies having to adjust their capital plans in order to accommodate the incorporation of the results of stress tests undertaken pursuant to Section 165(i), an exercise likely to result in significant and needless burdens and costs for the covered companies and the diversion of scarce supervisory resources.[4]

Timeframe for Submission and Review of Capital Plans; Updated Plans

The Proposal sets forth a rigid and highly prescriptive timeframe for submission and review of capital plans. Each Large U.S. Bank Holding Company would be required to submit its complete capital plan by January 5th each year, and the appropriate Reserve Bank, after consultation with the Board, would provide its response by March 15th. A Large U.S. Bank Holding Company that receives a notice of objection to its plan would have 5 calendar days following receipt to make a written request for reconsideration, and the Board would notify the Company of its decision with 10 calendar days of receipt of the request.

Although required as a regulatory matter by virtue of the Proposal, capital planning is fundamentally a supervisory undertaking and as such its timing should be adapted to the circumstances of each reporting entity. We recognize the need for timely submission and review of plans on an annual basis, but we do not think there is any reason for all Large U.S. Bank Holding Companies to be required by regulation to undertake this on a calendar year basis. In the case of foreign-owned Large U.S. Bank Holding Companies a calendar year filing might conflict with reporting obligations to which the U.S. bank holding company is subject as a subsidiary of a foreign bank (for example, internal capital planning by the Large U.S. Bank Holding Company subsidiary may be undertaken in conjunction with the parent bank's capital planning, which may not be done on a calendar year basis (especially where the parent bank's fiscal year is other than a calendar year)).

Moreover, mandating simultaneous submission of capital plans by all bank holding companies subject to the requirement and expecting an informed decision on their acceptability within approximately 75 days would place considerable, and in our view unnecessary, pressures and burdens on both a reporting Large U.S. Bank Holding and Federal Reserve staff. Likewise, we believe it is unrealistic to expect that a Large U.S. Bank Holding Company would be able to

[4] The Proposal refers to stress tests conducted pursuant to Section 165(i)(2) (76 Fed. Reg. at 35354), but we note that Section 165(i)(1) requires annual stress testing conducted on the basis of parameters prescribed by the Board. We request clarification of how these parameters would relate to scenarios provided by the Board pursuant to proposed Section 225.8(d)(2)(iii)(A) of Regulation Y.

submit a meaningful, well-reasoned request for reconsideration of a notice of objection within 5 calendar days of its receipt, and even if *arguendo* this were feasible, we question the adequacy of 10 calendar days for the Board to provide a considered response.

We recommend that the Board reconsider the proposed timeframe for the submission and review of capital plans and adopt in its place a more flexible approach whereby the timing of the submission of a capital plan would be determined by the Federal Reserve in consultation with each Large U.S. Bank Holding Company, bearing in mind the need for timely submission of plans but also taking into account the circumstances of each reporting company. At a minimum, the final rule should permit a reporting company to obtain a reasonable extension for good cause shown, both with respect to its initial annual submission and a request for reconsideration.

We have similar concerns regarding the proposed framework for submission of updated plans. Instead of mandating resubmission within 30 calendar days of a triggering event,[5] we recommend that the timing of resubmissions/updates be based on the nature of the triggering event (and in this regard, we further recommend that the Board provide greater clarity on the circumstances that would trigger a resubmission – especially with respect to "material" changes in the bank holding company's risk profile).

Our concerns relating to resubmissions/updates would be mitigated to some extent if the regulation did not in effect require submission of updates in the form of a new plan and a Large U.S. Bank Holding Company could simply update the portions of the plan affected by the change or provide an informational supplement to the plan describing the change and its impact.[6] The supplementary discussion of the Proposal in the Federal Register notice to some extent addresses this concern,[7] but it nevertheless presumes that only exceptional circumstances would justify submission of less than a full plan. Moreover, the supplementary discussion is not fully reflected in proposed Section 225.8(d)(1)(vi) of Regulation Y, which states that any updated capital plan must satisfy all the requirements applicable to the annual capital plan, "unless otherwise specified by the appropriate Reserve Bank, after consultation with the Board." We recommend that the final rule scale the timing and content of updates to the triggering circumstances and not as a general matter require submission of a new plan.

Our final comment on timing relates to the implementation of the final rule. The Board's June 10th press release states that the Board plans to finalize the proposal later this year and begin

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[5] We note that proposed Section 225.8(d)(1)(v) would permit the appropriate Reserve Bank "at its sole discretion" to extend the 30-day period for up to an additional 60 calendar days. Consistent with the approach we suggest with respect to annual submissions and requests for reconsiderations, we recommend that the Board modify this provision to enable reasonable extensions based on good faith requests.

[6] If changed circumstances were so profound as to merit the submission of an entirely new plan, then we would question whether 30 calendar days would provide sufficient time to do so.

[7] *See* 76 Fed. Reg. at 35353.

the annual capital reviews in early 2012. The Board has suggested that a one-year transition period be provided for those Large U.S. Bank Holding Companies that did not participate in the CCAR.[8] We believe such a transition period would be appropriate and recommend that it be incorporated into the final rule.

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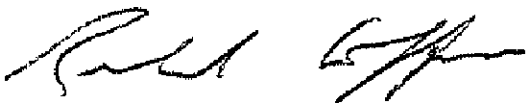
We appreciate the Board's consideration of our comments. Please contact the undersigned if we can provide any additional information or assistance.

Very truly yours,



Richard Coffman
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[8] *See* 76 Fed. Reg. at 35353.