ZIONS BANK®

February 3, 2012

via e-mail to regs.comments@occ.treas.gov

Re: Risk-Based Capital Guidelines: Market Risk; Alternatives to Credit Ratings for Debt and Securitization Positions

DEPARTMENT OF THE TREASURY
Office of the Comptroller of the Currency

12 CFR Part 3
[Docket ID OCC–2010–0003]
RIN 1557–AC99

FEDERAL RESERVE SYSTEM

12 CFR Parts 208 and 225
[Regulations H and Y; Docket No. R–1401]
RIN 7100–AD61

FEDERAL DEPOSIT INSURANCE CORPORATION
12 CFR Part 325
RIN 3064–AD70

To Whom It May Concern:

Zions First National Bank ("Zions") appreciates the opportunity to comment on the federal banking agencies' ("the agencies") proposed rulemaking ("NPRM") "Risk-Based Capital Guidelines: Market Risk; Alternatives to Credit Ratings for Debt and Securitization Positions."

Zions First National Bank is a national bank based in Salt Lake City, Utah with 130 full-service branches in Utah and Idaho. Zions Bank has approximately $16 billion in assets and employs approximately 2,700 people. Zions is a wholly-owned subsidiary of Zions

Bancorporation, a bank holding company with eight bank subsidiaries in the Western United States.

Zions continues to support the provision in the Dodd-Frank Act that requires that all reference to or requirement of reliance on credit ratings be removed from regulation. There is ample evidence that credit ratings are highly retrospective. Over-reliance on ratings to provide useful information about credit-worthiness contributed to the recent financial crisis. Not only did banks invest in securities that had more risk than implied by their credit ratings, the ratings did not provide a timely warning when the credit quality of the securities started to decline.

We recognize that the NPRM in question relates only to a bank's trading book. However, we are concerned that for the sake of simplicity and consistency, the agencies are likely to propose the same approach for the banks' portfolio holdings. We are concerned that once the agencies make a decision on this NPRM they will be less likely to incorporate legitimate feedback into any subsequent proposal relating to the securities in the banking book out of concern that resulting rules would be inconsistent. We believe it would be preferable to release both sets of rules simultaneously so that all banks that are affected can opine on the proposed approach.

The NPRM takes a one-size-fits-all approach to computing risk weights for securitizations. However, one size does not fit all. Zions' securitization portfolio consists primarily of collateralized debt obligations (CDOs) for which the underlying collateral is bank and insurance company issued trust preferred securities. There are a number of features of trust preferred CDO securities that make application of the NPRM difficult and potentially lead to inappropriate capital requirements.

Zions has compared the risk-based capital currently required with the capital that would be required under the proposed method. We find that the proposed method disproportionately affects super senior tranches, leading to risk-based capital requirements that are multiples of current requirements, especially for securities that are highly over-collateralized and have shorter average lives. In our opinion, by proposing a rule that increases capital requirements, the agencies have reached beyond the intent of the provision in the Dodd-Frank Act. Our reading of the provision indicates a purpose that was limited to the removal of credit ratings from regulation and not an increase in capital requirements for a given type of credit.

The purpose of this NPR is to comply with the section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act by eliminating the use of and reliance on credit ratings. In addition to the credit ratings approach, current rules permit the use of the "gross-up" method. Zions currently uses this method for non-rated or below BB rated securities. We believe the gross-up treatment should continue to be an option to the simplified supervisory formula approach (SSFA) if an institution desired to choose this option. This may be the only practical method where trustee reporting does not provide sufficient data to compute the SSFA.

One of the stated objectives of the proposed rulemaking is to "Be reasonably simple to implement and not add undue burden on banking organizations." Under the current proposed rule, the SSFA specific risk-weighting factor for a position depends on the following inputs:

i) **K_G** – the weighted-average capital requirement of the underlying exposures calculated using the agencies' general risk-based capital rules.

ii) **Attachment point** – the ratio, expressed as a decimal value between 0 and 1, of the dollar amount of the securitization positions that are subordinated to the position to the dollar amount of the entire pool of underlying assets. (Represents the threshold at which credit losses would first be allocated to the position.)

iii) **Detachment point** - the ratio, expressed as a decimal value between 0 and 1, equals the value of the attachment point of the position plus the ratio of 1) the dollar amount of the positions and all *pari passu* positions to 2) the dollar amount of the underlying exposures. (Represents the threshold at which credit losses allocated to the position would result in a total loss to the investor in the position.)

iv) **Supervisory calibration parameter** – for securitization positions that do not include re-securitization positions = 0.5; for any securitization that includes a re-securitization position = 1.5

v) **Cumulative losses on the underlying pool of exposures** – the dollar amount of aggregate losses on the underlying exposures, net of recoveries, since deal closing or origination of a securitization. (Affects the level of the specific risk-weighting factor floor.)

Attachment point/detachment point – It is unclear what the "entire pool of underlying assets" includes. The NPRM states that any reserve account balance may be included. Does this include deferred and/or defaulted assets? As some CDOs do in their coverage tests, does this include only some portion of deferred and/or defaulted assets, for example 2% or 5% of defaulted balances?

Trustee reports are not standardized. Trustee definitions of loss differ across asset classes and within the same asset class. Some trustee reports do not differentiate between deferrals and defaults and show both of them as "defaulted assets." This can cause an inconsistent SSFA result by different institutions for the same securities. In our opinion, this is **not** reasonably simple and introduces the possibility of inconsistency across banks.

Over collateralization or excess spread is not considered in the current SSFA proposal. Instead of a "bottom up" approach as is presented in the current SSFA proposal, a "top to bottom" approach may be more appropriate to capture over collateralization. Ignoring key structural factors that offer credit protection while focusing solely on collateral loss that could be irrelevant to senior tranches is overly punitive.

Supervisory calibration parameter - The trigger for whether to apply the re-securitization calibration should be set at a percentage of the underlying structured finance obligation rather than the number of re-securitization assets in the collateral pool. We believe that the trigger should be in the 10 percent range as a single, small re-securitization asset does not necessarily warrant such a dramatic increase in risk weight.

Cumulative losses on the underlying pool of exposures – The NPRM does not clearly define this concept. Is it the intent to define loss as however the bond indenture defined it or to identify actual lost collateral for which no recovery will occur? Do losses mean just assets for which a third party has issued a default notice? For collateral underlying CDOs in Zions' portfolio, the underlying collateral (bank-issued trust preferred securities) is allowed to defer payment for five years. Is a portion of such deferred assets considered as loss? We have seen some deferrals come current without waiting for full five years of allowed time. As mentioned under **attachment point/ detachment point** above, some trustee reports do not differentiate deferrals from defaults.

The definition of cumulative loss also includes the concept of "...since deal closing or origination of a securitization." This information is not readily available on the trustee reports unless the holder has maintained a complete history of all the defaulted securities, including any that may have been sold. Information on sales may show up on the "sales activity" section on the trustee report in the period in which a sale occurs, but usually this information is not included in the next trustee report. Recovery information is also hard to ascertain. When a portion of the asset is recovered, say 60 cents on the dollar, the money is used in the waterfall and may be listed on the trustee report for that period, but the lost 40 cents on the dollar from that asset will not be reported on the trustee report going forward. The NPRM states that "The agencies believe that for most securitizations, the inputs to the SSFA are readily available from prospectuses for newly-issued securitizations and from servicer reports for existing securitizations." For the types of CDOs that Zions owns, this is clearly not the case.

In the SSFA, cumulative losses are then compared to K_G to set the minimum specific risk-weighting factor floors. Cumulative losses are measured based on the underlying pool of exposures, but the floor factor calculation calls for cumulative losses on the originally issued securities. This is inconsistent and should be clarified. While some securitizations require trustee "write downs" of securities as losses accumulate, this does not occur in all structured finance asset classes.

Also, "originally issued securities" should be clearly defined as to whether it includes equity and/or income notes. Once a security starts experiencing losses and hits the floors set forth in the NPRM, regardless of how much over collateralization it might have or how much interest diversion to the principal it would receive by triggering principal or interest coverage test ratios, senior tranches will be inappropriately treated as essentially equal to subordinate tranches with the same floor. This seems to be too punitive.

Consider the following risk weightings for a hypothetical CDO under different cumulative loss scenarios:

	No Loss	Loss %: 51% of KG = 4% Cumulative Loss	Loss %: 101% of KG = 8% Cumulative Loss	Loss %: 151% of KG = 12% Cumulative Loss
A Tranche	20.00%	100.00%	650.00%	1250.00%
B Tranche	20.00%	100.00%	663.05%	1250.00%
C Tranche	155.95%	155.95%	650.00%	1250.00%

To capture the over collateralization and to be more fair to senior tranches, a securitization's capital structure should be looked at from top to bottom instead of bottom up. If this cumulative loss floor concept in the proposal is to be used, an over collateralization ceiling should be put in place as well as a mechanism to override the floor when overcollateralization exists.

Over collateralization information (however defined) is readily available in trustee reports. Deferring and defaulted securities' treatment would differ from security to security, depending on the extent of transparency for each piece of collateral, but at least the same percentage would be used by different institutions if over collateralization were to be utilized in the SSFA calculation. We believe this approach is reasonably simple, compared to the proposed cumulative loss floor method, which is not reasonably simple and potentially punitive.

In summary, Zions appreciates the efforts of the agencies to eliminate reference to and requirement of reliance upon credit ratings in regulation. Our concerns with this NPRM are:

- While this NPRM applies only to the trading book, we are concerned that if this approach is adopted it will naturally then be proposed for the banking book.
- The proposal takes a one-size-fits-all approach, when in fact significant differences exist across types of securitizations, which in some cases make the current proposal unworkable.
- In some cases, data necessary to compute SSFA is not available.
- The SSFA approach does not meet the stated objective of simplicity, and as such, the currently used gross up approach should remain as an option.
- The SSFA approach imposes too high of capital requirements on senior tranches, especially those with over collateralization.

- Some aspects of the SSFA approach are not yet well specified, resulting in uncertainty about the ultimate effect of this NPRM.

Zions appreciates the opportunity to provide feedback on the proposed rulemaking and would be happy to discuss our view further at your convenience.

Sincerely,

W. David Hemingway
Executive Vice President