

By electronic submission

October 26, 2012

Jennifer J. Johnson
Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, DC 20219

Re: **Supplement to Joint Trade Association Comment Letter on Proposals to
Comprehensively Revise the Regulatory Capital Framework for U.S.
Banking Organizations**

Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios,
Capital Adequacy, Transition Provisions, and Prompt Corrective Action (OCC Docket ID
OCC-2012-0008, RIN 1557- AD 46; FRB Docket No. R- 1442, RIN 7100 – AD 87;
FDIC RIN 3064-AD95);

Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure
Requirements (OCC Docket ID OCC-2012-0009, RIN 1557 – AD 46; FRB Docket No.
R- 1442, RIN 7100 – AD 87; FDIC RIN 3064-AD96); and

Advanced Approaches Risk-based Capital Rule; Market Risk Capital Rule (OCC Docket
ID OCC-2012-0010, RIN 1557 – AD 46; FRB Docket No. R- 1442, RIN 7100 – AD 87;
FDIC RIN 3064-AD97)

Ladies and Gentlemen:

Attached please find the following supplement to page A-8 footnote 12 of Annex A of the comment letter filed on October 22, 2012 by the American Bankers Association, the Securities Industry and Financial Markets Association and The Financial Services Roundtable regarding three notices of proposed rulemaking issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation that would comprehensively revise the regulatory capital framework for all U.S. banking organizations (“Joint Trade Association Letter”).

This supplement provides additional data to support the Associations' strong belief that the Agencies should not require unrealized gains and losses on available for sale securities to flow through to regulatory capital, as proposed under the Basel III Numerator NPR.

Please do not hesitate to contact Alison Touhey, Senior Regulatory Advisor at 202-663-5182 (email: atouhey@aba.com) if you have any questions or need further information.

Sincerely,

A handwritten signature in black ink that reads "Hugh C. Carney". The signature is fluid and cursive, with the first name "Hugh" being the most prominent.

Hugh C. Carney
Senior Counsel II

AOCI Supplemental: Methodology and Discussion

As discussed in detail in the Joint Trade Association Letter, the proposal to flow through to common equity tier 1 capital all unrealized gains and losses on a banking organization's available-for-sale (AFS) securities would create numerous unintended consequences. One such unintended consequence is the distortion of bank capital levels in changing rate environments, resulting in the under (over) statement of bank capital during rising (decreasing) interest rate environments, with the degree of perceived under (over) capitalization correlated with the amount by which rates rise (fall). The following elaborates on and explains the methodology behind Table A-1. The additional data provided below show that flowing unrealized gains/losses through to capital may, all else equal, cause capital adequacy to become dependent on the amount by which rates rise and the duration of bank investment portfolios.

Methodology:

ABA's analysis uses June 2012 Call Report data to estimate gains and losses on bank AFS portfolios and then applies the gain/loss to the Tier 1 leverage ratio, Tier 1 capital ratio and the Total Risk Based capital ratio of individual banks. The analysis assumes portfolio durations of 1 to 6 years, with each duration run through interest rate increases of 100 to 600 basis points. For example, assuming a duration of 3 and an interest rate increase of 400 basis points, an estimated 6% of banks could fall below one or more of the "Well Capitalized" ratios due solely to increasing interest rates.¹

For simplicity and illustrative purposes, the analysis attempts to isolate likely changes in capital as a function of interest rates, rather than safety and soundness or other considerations. The analysis, then, does not consider any actions a bank may take to mitigate its interest rate risk, such as holding a de facto buffer to mitigate capital volatility or significantly shortening the duration of its investment portfolio. Further, given both the historically low interest rate environment and that rising rates would significantly underestimate a bank's capital, our analysis only considers the impact of a rising rate environment. However, it is likely that a future decreasing rate environment would lead to a corresponding overstatement of capital.

¹ To better isolate the effects of rate changes on capital, this version of the data excludes those institutions currently falling below any of the "Well Capitalized" ratios. Therefore, the numbers vary from those found in table A-1 of the Joint Trade Association Letter.

**Number of US Banks Potentially Falling Below Well Capitalized
If the AOCI Filter is Removed**

Duration: 1

Interest Rate Increase	All Banks				Percentage of Non-Compliant Banks
	5% Tier 1 Leverage Ratio	8% Tier 1 Capital Ratio	10% RBC Capital Ratio	at Least One Capital Ratio	
100 bpts	0	0	1	0	0%
200 bpts	10	4	5	6	0%
300 bpts	15	10	17	19	0%
400 bpts	20	14	29	33	0%
500 bpts	32	23	45	55	1%
600 bpts	42	31	62	74	1%

Duration: 2

Interest Rate Increase	All Banks				Percentage of Non-Compliant Banks
	5% Tier 1 Leverage Ratio	8% Tier 1 Capital Ratio	10% RBC Capital Ratio	at Least One Capital Ratio	
100 bpts	10	4	5	6	0%
200 bpts	20	14	29	33	0%
300 bpts	42	31	62	74	1%
400 bpts	75	51	105	134	2%
500 bpts	145	86	183	250	3%
600 bpts	250	160	313	410	6%

Duration: 3

Interest Rate Increase	All Banks				Percentage of Non-Compliant Banks
	5% Tier 1 Leverage Ratio	8% Tier 1 Capital Ratio	10% RBC Capital Ratio	at Least One Capital Ratio	
100 bpts	15	10	17	19	0%
200 bpts	42	31	62	74	1%
300 bpts	104	65	141	185	3%
400 bpts	250	160	313	410	6%
500 bpts	489	376	656	778	11%
600 bpts	805	703	1,086	1,221	17%

Duration: 4

Interest Rate Increase	All Banks				Percentage of Non-Compliant Banks
	5% Tier 1 Leverage Ratio	8% Tier 1 Capital Ratio	10% RBC Capital Ratio	at Least One Capital Ratio	
100 bpts	20	14	29	33	0%
200 bpts	75	51	105	134	2%
300 bpts	250	160	313	410	6%
400 bpts	591	472	773	917	13%
500 bpts	1,054	989	1,413	1,562	21%
600 bpts	1,541	1,583	2,015	2,148	29%

Duration: 5

Interest Rate Increase	All Banks				Percentage of Non-Compliant Banks
	5% Tier 1 Leverage Ratio	8% Tier 1 Capital Ratio	10% RBC Capital Ratio	at Least One Capital Ratio	
100 bpts	32	23	45	55	1%
200 bpts	145	86	183	250	3%
300 bpts	489	376	656	778	11%
400 bpts	1,054	989	1,413	1,562	21%
500 bpts	1,653	1,719	2,160	2,283	31%
600 bpts	2,249	2,414	2,826	2,922	40%

Duration: 6

Interest Rate Increase	All Banks				Percentage of Non-Compliant Banks
	5% Tier 1 Leverage Ratio	8% Tier 1 Capital Ratio	10% RBC Capital Ratio	at Least One Capital Ratio	
100 bpts	42	31	62	74	1%
200 bpts	250	160	313	410	6%
300 bpts	805	703	1,086	1,221	17%
400 bpts	1,541	1,583	2,015	2,148	29%
500 bpts	2,249	2,414	2,826	2,922	40%
600 bpts	2,852	3,069	3,404	3,493	48%