ICBA
INDEPENDENT COMMUNITY
BANKERS of AMERICA®

October 21, 2013

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218, Mail Stop 9W-11
Washington, DC 20219

Mr. Robert de V. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

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

Re: Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions, OCC Docket ID OCC-2013-0008, Federal Reserve Docket No. R-1460, FDIC RIN 3064-AE01

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on the proposed regulatory capital requirement titled *Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions*. This proposal seeks to strengthen the leverage ratios for the largest interconnected,

[1] The Independent Community Bankers of America®, the nation's voice for more than 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With nearly 5,000 members, representing more than 24,000 locations nationwide and employing more than 300,000 Americans, ICBA members hold more than $1.2 trillion in assets, $1 trillion in deposits, and $750 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

systemically important financial institutions by introducing a two percent leverage buffer on the largest bank holding companies and six percent supplementary leverage ratio for their subsidiary financial institutions to be considered well capitalized under prompt corrective action requirements. These new measures of capital adequacy are in response to the framework introduced by the Basel Committee on Banking Supervision (BCBS), which intends to strengthen capital levels for the global systemically important banking organizations.

ICBA supports this proposal as a much needed solution to address the nation's too-big-to-fail problem, where the largest megabanks are backed with a government guarantee against insolvency because their immense size makes them critical to the stability of the global financial system. This proposal is a big step in requiring these too-big-to-fail megabanks to have sufficient capital available to absorb the losses that will accompany any future financial crisis and shift the burden of megabank bailouts from taxpayers to shareholders. Introducing these higher capital measures properly addresses the risks associated with these oversized financial institutions and their global interconnected dependencies. Higher capital requirements for these institutions will not only mean a more stable banking system and less risks to the FDIC's Deposit Insurance Fund, but will also mitigate, to some extent, the competitive advantage these institutions have over community banks.

Background

The proposal is being set forth in response to the BCBS framework introduced to address the size, complexity, systemic importance, and international activities of the largest global banks and the risks they pose to the financial system by strengthening their capital positions. In the United States, these institutions are identified as those that have more than $700 billion in consolidated assets or more than $10 trillion in assets under custody. As of the date of this letter, eight financial institutions in the United States have been identified as meeting this asset threshold.

For covered institutions, the proposal introduces enhanced leverage standards for both the top-tier bank holding company and its subsidiary banks and would become effective on January 1, 2018. For the subsidiary bank, the proposal requires a six percent supplementary leverage ratio for tier 1 capital for the bank to be considered well capitalized under the prompt corrective action framework. For other advanced approaches banks not subject to this proposal, there is no current or proposed well capitalized requirement for the supplementary leverage ratio. The supplementary leverage ratio includes all on-balance sheet assets and certain off-balance sheet exposures in the denominator of the ratio.

For the top-tier bank holding company, the proposal requires a two percent leverage buffer in addition to the minimum three percent supplementary leverage ratio using tier 1 capital for a total of five percent tier l supplementary leverage ratio. If the bank holding company falls below the five percent supplementary leverage ratio, the institution would be subject limitations on dividend payouts of retained earnings and certain discretionary bonus payments to executives. This leverage buffer is intended to mimic the capital conservation buffer that was adopted through the final rule and that applies to common equity tier 1 capital, tier 1 capital, and total capital for all financial institutions.

ICBA's Comments

ICBA believes that implementing these enhanced leverage standards on the largest global banks is crucial to reducing systemic risk and addressing the problem of too-big-to-fail financial institutions in the United States. These banks put the entire global financial system at risk simply due to their immense size, the complexity of the activities that drive their business model, and the level of risks they undertake. Additionally, these banks enjoy a subsidy by the U.S. government as it is widely believed that they would not be allowed to fail in the next financial crisis.

By raising the supplemental leverage ratios for both the top-tier bank holding company and the subsidiary financial institutions, these institutions will be less likely to fail and less interested in growing even bigger. Targeting off-balance sheet instruments for inclusion in the ratios is also important since it addresses these institutions' off balance sheet derivative exposures that ended up impacting so many financial institutions and exacerbating the last economic crisis. Furthermore, by constraining their use of leverage, higher leverage standards will offset funding cost advantages that these institutions enjoy as a result of the "too-big-to-fail" problem. According to Bloomberg, this subsidy comes to about $83 billion annually. As the banking agencies point out, almost all of the top-tier bank holding companies that are subject to these enhanced supplementary leverage ratios will meet or exceed the five percent threshold by the beginning of 2018, the required implementation date. Additionally, it is expected that the bank subsidiaries will be able to manage capital appropriately to meet a six percent leverage ratio by this date. All while further mitigating the risk to the banking system that today is providing an unfair pricing advantage for these institutions that operate globally.

ICBA supports the Terminating Bailouts for Taxpayer Fairness (TBTF) Act (S.798), introduced by Senators Sherrod Brown (D-Ohio) and David Vitter (R-La.) which calls for higher capital requirements for the largest, TBTF banks by subjecting institutions over $500 billion to the highest equity capital ratio requirements. While ICBA would not object to an increase in proposed supplementary leverage ratio proposed for these megabanks or an amendment to the proposal that increases the number of covered financial institutions beyond the eight currently identified, we would certainly oppose any amendments in a final rule that directly or indirectly lowers the proposed minimum supplementary leverage ratio, raises the minimum asset threshold required for a covered financial institution to be subject to this proposal, or selectively omits certain assets like cash or cash equivalents to effectively lower the supplementary leverage ratio. Additionally, ICBA rejects the arguments that TBTF banks will lose their ability to compete with their counterparts in Europe due to the higher capital requirements required

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in the United States. ICBA believes that achieving a more stable banking system is superior to these TBTF institutions' global competitiveness.

ICBA appreciates the opportunity to express its support for this proposal. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 659-8111 or james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
Vice President, Accounting & Capital Policy