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August 3, 2011

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

Re: Capital Plans
Federal Reserve Docket No. R-1425, RIN No. 7100 AD 77

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to provide comments on the proposed rule to amend Regulation Y that would require certain large bank holding companies to submit annual capital plans to the Federal Reserve. Under certain circumstances large bank holding companies would be required to provide prior notice to the Federal Reserve before making a capital distribution. The goal of the proposal is to establish minimum supervisory standards for the development, implementation, and monitoring of capital planning strategies for large bank holding companies. Additionally, the amendment aims to guide boards of directors and senior management of large bank holding companies in communicating strategies and processes to the Federal Reserve. Finally, the amendment provides the Federal Reserve with the ability to review certain capital distributions of large bank holding companies.

¹ The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold \$1 trillion in assets, \$800 billion in deposits, and \$700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

Background

The proposed rule requires every top-tier bank holding company that is domiciled in the United States with \$50 billion or more in total consolidated assets to develop a capital plan. The capital plan would include detail on the expected uses and sources of capital over the next nine quarters based on the holding company's complexity, risk profile, and scope of operations for both expected and stressed conditions. The capital plan would also provide detail on the large bank holding company's processes for assessing capital adequacy and the effectiveness of these processes. The large bank holding company's board of directors or their designated committee would be charged with approving the capital plan and reviewing the processes to ensure that any deficiencies are corrected. Once approved by the board of directors, the capital plan would be submitted to the holding company's Federal Reserve Bank and the Federal Reserve Board. The holding company would be required to update and resubmit its capital plan when there has been a material change in risk profile, financial conditions, corporate structure or as directed by the Federal Reserve Bank.

Each capital plan developed by a large bank holding company would be required to contain at a minimum the following components:

- Discussion of how the bank will maintain capital during stressful conditions
- Discussion of how the bank will maintain access to funding, meet obligations to creditors and counterparties, and serve as a credit intermediary during stressful conditions
- Discussion of sources and uses of capital over the next nine quarters including estimates of projected revenues, losses, reserves, pro forma capital levels, and additional capital measures
- Discussion of the results of the stress tests imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
- Description of planned capital actions during the next nine quarters
- The bank holding company's capital policy
- Discussion of expected changes to the bank holding company's business plan that would likely have a material impact on capital adequacy or liquidity
- Calculation of the pro forma tier 1 common ratio under expected and stressed conditions with a discussion on how the bank would maintain a pro forma tier 1 common ratio of five percent in stressed conditions (required through 2015)

As part of the submission of the capital plan, the large bank holding company would be required to provide specific data to the Federal Reserve including information on the bank holding company's financial condition, structure, assets, risk exposure, policies and procedures, liquidity, and management.

In the event that the Federal Reserve raises objection to a submitted capital plan, the large bank holding company generally would not be able to distribute capital without providing

a 30 day prior notice to the Federal Reserve. The large bank holding company would also be required to provide prior notice before making a capital distribution even if the Federal Reserve does not object to its capital plan if it would not meet the minimum regulatory capital ratio after the distribution, the distribution would result in a material adverse change in the organization's capital or liquidity structure, earnings currently are materially underperforming projections, the distribution exceeds the amount described in the capital plan approved by the Federal Reserve, or the distribution would occur at a time when the Federal Reserve is reviewing the capital plan.

ICBA's Comments

ICBA supports the proposed rule to require large bank holding companies to submit capital plans to the Federal Reserve because we believe that many of the largest bank holding companies did not maintain adequate capital cushions to protect against substantial losses during the recent economic crisis. Large bank holding companies were distributing capital back to shareholders immediately before the crisis while capital levels were not adequate to guard against the economic stresses in the financial markets. Because large bank holding companies generally maintain complex asset and liability management structures that introduce incremental risks to capital, ICBA believes that they should maintain appropriate forward projections and forecasts of income, losses, and capital in simulated environments that reflect stressed economic conditions with the goal of creating safeguards to ensure that any one large bank holding company is not undercapitalized. In building forward projections, these institutions should better understand the risks inherent in their capital structures to fully determine whether current capital levels are sufficient in challenging economic environments.

ICBA further supports the established threshold of \$50 billion in total consolidated assets in defining large U.S. bank holding companies subject to the proposed rule. Large bank holding companies with consolidated assets of \$50 billion or more represent the greatest risk to the U.S. banking system as they acquire and manage complex financial instruments that have the potential to diminish large amounts of capital in a short period of time when that capital is needed most to protect the institution from losses. However, just as we stated with respect to stress testing, capital planning should be commensurate with the size, complexity, business activities, and overall risk profile of the banking organization. For instance, capital planning and the disclosures to the Federal Reserve for a trillion dollar banking institution with significant exposures to derivatives should be vastly more detailed and extensive than that for a \$50 billion banking institution that operates more like a traditional bank.

Finally, ICBA supports the view by the Federal Reserve that large bank holding companies should be required to give prior notice to the Federal Reserve prior to making a capital distribution when a large bank holding company's capital plan has not been approved or under certain limited circumstances as discussed above. Capital distributions that could result in weakening a large bank holding company's capital structure or interfere with its ability to meet liquidity needs in a stressed economic environment

should be submitted to the Federal Reserve for review prior to a distribution to avoid a repeat of what happened during the past economic downturn when large bank holding companies had inadequate capital levels to face the challenging economic environment and in some cases, had to be bailed out by the government.

ICBA appreciates the opportunity to comment on 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