



**International Bancshares
Corporation**

July 21, 2011

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

Re: Docket No. OP-1411
Proposed Guidance on Stress Testing for Banking Organizations with more than \$10
Billion in Total Consolidated Assets

Dear Ms. Johnson:

The following comments are submitted on behalf of International Bancshares Corporation ("IBC"), a multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains over 278 facilities and more than 440 ATMs, which serve 107 communities in Texas and Oklahoma. IBC is the largest Hispanic-owned financial holding company in the continental United States with over \$12.2 billion in assets. IBC is a publicly-traded financial holding company.

The purpose of this comment letter is to address the Board of Governors of the Federal Reserve System's (the "Federal Reserve") and other financial agencies' Proposed Guidance on Stress Testing for Banking Organizations with more than \$10 Billion in Total Consolidated Assets (the "Proposed Guidance").

The Proposed Guidance provides an overview of how an organization should develop a structure for stress testing, outlines general principles for a satisfactory stress testing framework, and describes how stress testing should be used at various levels within a banking organization. The Proposed Guidance also discusses the importance of stress testing in capital and liquidity planning, and the importance of strong internal governance and controls in an effective stress-testing framework.

The Proposed Guidance does not explicitly address the stress testing requirements outlined in the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the financial agencies anticipate that rulemakings implementing these requirements will be consistent with the principles contained in the Proposed Guidance. The financial agencies also believe the Proposed Guidance is consistent with other supervisory initiatives, including those related to capital and liquidity planning. The financial agencies believe that it is important to establish the principles of stress testing as a background for these future rulemaking activities and supervisory initiatives.

The principles contained in the Proposed Guidance are redundant and too broad. Banks are already subject to a strong and robust system of financial regulation. The Proposed Rule is a principles-based approach to regulating risk management of financial institutions and duplicates the existing authority of the banking regulators to restrict unsafe and unsound practices, including stress testing practices. The Federal Reserve already has clear authority to act in this area. Section 8 of the Federal Deposit Insurance Act authorizes the Federal Reserve to take action against a banking organization if the organization is engaged, or is about to engage in, any unsafe or unsound practice. The Proposed Guidance is too vague to be helpful, and the ambiguities associated with the Proposed Guidance will make compliance very difficult. This ambiguity will create an undue burden and lead to increased costs and regulatory uncertainty. Concerns about bank risks and risk management as a whole can already be addressed under the existing bank regulatory framework as well as other laws. Although the Proposed Guidance provides standards for stress testing, the Proposed Guidance's failure to address any specific stress testing practices is problematic. Better defined principles would reduce compliance costs by providing clarity as to expectations. We suggest that the Proposed Guidance, rather than being broad and vague, should clearly and directly address certain risk practices that appear to have actually had an adverse effect on banks' safety and soundness.

In addition, the Proposed Guidance makes the implicit assumption that the regulators are better equipped to manage a bank's risk than the bank itself. Successful financial institutions, especially those that are publically traded, already manage risk based on the standards contained in the Proposed Guidance. Bank management is better able to know and judge the peculiarities and complexities associated with its bank, the nature of the bank's operations and assets, and its geographic location. Conversely, bank regulators must be familiar with banks across a broad geographic area with very different customer and product bases. The Proposed Guidance provides no criteria or structure for assessing risk; thus, they assume that a regulator is better able to determine what risk management practices are "right" versus what practices are "wrong." Moreover, the Proposed Guidance does not take into consideration the unique peculiarities and complexities of a particular financial institution.

Over time, regulators may try to apply certain risk management best practices to all institutions, which could have the unintended effect of dictating a one-size-fits-all risk management program for banking organizations. One-size-fits-all scenarios or techniques will crowd out stress testing efforts that are actually useful to a bank. And even worse, banking organizations will be forced to add expensive capital as a result of stress testing scenarios or techniques that do not take into consideration the organizations' unique complexities and the peculiarities of its market and geographic location, which will lead to diluted shareholder earnings. It is misguided to believe that regulatory micromanagement of banks' stress testing practices will lead to economic improvement amongst banks.

The widely publicized instances where the risk management programs of certain large complex banking organizations have exposed the financial institution to undue risk should not be used to taint the established risk management programs of banks that do not present such undue risk and have not had negative safety and soundness examination findings. Rather than presenting undue risk, the risk management programs of community banks are generally straightforward. In any event, the bank regulators are already authorized to prohibit any undue risk or problematic risk management programs identified during an examination.

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Finally, this Proposed Guidance is premature as the banking regulators note that additional rule making is required pursuant to section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. These issues would be better treated in a comprehensive rule making rather than in a Supervisory Guidance.

Thank you for this opportunity to comment.

Respectfully,

A handwritten signature in black ink, appearing to read 'DENNIS E. NIXON', written over a faint, illegible background.

Dennis E. Nixon
President and CEO