# Cullen/Frost Bankers, Inc.

Phillip D. Green
Group Executive Vice President and
Chief Financial Officer

April 23, 2012

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

RE: Regulation YY; Docket No. 1438
RIN 7100-AD-86
Enhanced Prudential Standards and Early
Remediation Requirements for Covered Companies

Dear Ms. Johnson:

Thank you for the opportunity of allowing Cullen/Frost Bankers, Inc. ("Cullen/Frost") to comment on the proposed rulemaking on "Enhanced Prudential Standards and Early Remediation Requirement for Covered Companies," published in the Federal Register, Volume 77, Number 3, on January 5, 2012. Cullen/Frost would like to comment on Part VII, B.3. "Publication of Results by the Company," of the proposed rule.

Cullen/Frost, a Texas business corporation, is a financial holding company and a bank holding company headquartered in San Antonio, Texas. At December 31, 2011, Cullen/Frost had consolidated total assets of $20.3 billion. On February 3, 2012, Frost Bank, the sole banking subsidiary of Cullen/Frost, applied to the Texas Department of Banking to become a Texas state chartered bank and a member of the Federal Reserve System. As such Cullen/Frost would be subject to the annual, self-conducted stress tests.

There is significant merit in company-run stress tests providing forward looking information to bank supervisors to assist in the overall assessments of capital adequacy; identifying downside risks and the potential impact of adverse outcomes on

Cullen/Frost's capital adequacy; and helping to achieve the financial stability goals of the Dodd-Frank Act. Further, the company-run stress tests will improve Cullen/Frost's stress testing practices with respect to its own internal assessments of capital adequacy and overall capital planning. The board of directors and senior management of Cullen/Frost understand the need for incorporating stress testing as a component of their broader risk management activities. However, we have concerns about the proposed rule that would require each over $10 billion dollar company to publish a summary of the results of its annual company-run stress tests within 90 days of submitting its required report to the Board of Governors of the Federal Reserve System (the "Board").

Cullen/Frost is deeply concerned about the potential consequences of the proposed public disclosures of the company-run stress test results under three scenarios (baseline, adverse, and severely adverse) over at least a nine-quarter forward-looking planning horizon. Of particular concern are the potential consequences of disclosures under the baseline scenario. Stress testing is a forward-looking exercise designed to estimate the impact of certain adverse economic scenarios on revenues, asset quality and capita l among other things, over the planning horizon. Each over $10 billion company would also be required to calculate, for each quarter-end within the planning horizon, the potential impact of the specific scenarios on its capital ratios, including regulatory and any other capital ratios specified by the Board. The Board has laid out specific stress-test scenarios and plans to publish for comment a description of items to be included in the required report. The Board anticipates that the report would include (but not necessarily be limited to) a multitude of qualitative and quantitative information that are assumptions and estimates only. As such, the types of business models, capital structures and risk profiles of companies that would be subject to company-run stress tests and publication could vary significantly. To tailor the application of the public disclosure to different companies on an individual basis, taking into consideration, their capital structure, riskiness, complexity, financial activities, size, and any other risk-related factors would not be meaningful. By the Board's own admission, "there are certain factors to bear in mind when interpreting any published results from the Board's annual analyses under the proposed rule. For example, the outputs of the analyses might not align with those produced by other parties conducting similar exercises, even if a similar set of assumptions were used. In addition, the outputs under the adverse and severely adverse scenarios should not be viewed as most likely forecasts or expected outcomes or as a measure of any company's solvency. Instead, those outputs are the resultant estimates from forward-looking exercises that consider possible outcomes based on a set of different hypothetical scenarios." Therefore, there is no "right" way to stress test and certainly no "right" way to interpret those published results.

Cullen/Frost also believes the required disclosures, particularly the disclosure of baseline scenarios for a nine-quarter forward looking planning horizon, are tantamount to forward-looking earnings guidance. Cullen/Frost expects that analysts and investors will use the published information in formulating forecasts and expectations related to a company's results of operations. Such information may also give insight into planned capital actions; key strategic initiatives, including merger and acquisition activity; and competitively sensitive business and product plans. The disclosures, as proposed, may also create a duty to provide regular updates to explain differences between actual results and the results published under the baseline scenarios. The stress test results should be designed for the benefit of a company's board of directors and management as the parties responsible for the financial condition of the company. They bear the primary responsibility for developing, implementing and monitoring a company's capital planning strategies and internal capital adequacy processes and are in the best position to interpret the results. Furthermore, the proposed public disclosures of the company-run stress test results may lead to misinterpretation of the scenarios and outcomes by not only the analyst and investor community, but the media as well. Cullen/Frost recommends that any need for disclosure for the over $10 billion companies be made by each company as a pass or fail, for only the outcomes at the end of the nine quarter planning horizon for the adverse and severely adverse scenarios. The determination of whether or not a company passes or fails a stress test should be determined by the capital ratios stipulated by the Prompt Corrective Action guidelines or other capital ratios designated by the Board.

As stated above, the proposed public disclosures of the company-run stress test results may lead to misinterpretation of the scenarios and outcomes by the media. Like it or not, the public perception of "too big to fail" in reference to larger, $50 billion plus companies still exists. The disclosure of the potential negative outcomes revealed by stress tests would likely not have any destabilizing effect on such companies. In all likelihood, the only real impact to these companies would be a limitation on dividend increases and the ability to buy back stock. In such cases, these larger, $50 billion plus companies are more competitively advantaged relative to smaller, over $10 billion companies that do not have the public perception of being "too big to fail." Any perceived weakness resulting from the disclosure of stress test results could be severely misinterpreted by the media, which could have a significant destabilizing effect on over $10 billion companies. Such misperceptions could result in customers fleeing community banks for the "safety" of the "too big to fail" banks, ironically rewarding the very institutions that caused the upheaval in the financial markets in the first place. With these proposed disclosures for over $10 billion companies, community banks are, once again, forced to pay for the sins of the larger, $50 billion plus, "too big to fail" institutions.

In conclusion, Cullen/Frost supports the proposal that requires over $10 billion companies to perform and report the results of those tests to the Board on an annual basis. However, Cullen/Frost strongly objects to the publication of the results in the manner proposed. The outcomes under the various scenarios should not be viewed as most likely forecasts or expected outcomes or as a measure of any company's solvency as might be the case if the information is disclosed publicly. Furthermore, companies should not be subject to the possibility of the loss of proprietary information that may occur if stress test results are published in the manner proposed.

Thank you for considering the concerns raised in this letter. We appreciate the opportunity to share our views and would be happy to discuss any of them further at your convenience.

If you have any questions, please contact me at (210) 220-4841.

Respectfully submitted,

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Chief Financial Officer
Cullen/Frost Bankers, Inc.