BOK FINANCIAL

Bank of Oklahoma Tower
P. O. Box 2300
Tulsa, Oklahoma 74192

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Via electronic delivery – regs.comments@OCC.treas.gov
- regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, SW, Mail Stop 2-3
Washington, DC 20219
Docket ID OCC-2011-0029; RIN 1557-AD58

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Jennifer L. Johnson, Secretary
Docket No. 1438; RIN 7100-AD-86

Re: Comments on Annual Stress Test and Enhanced Prudential Standards

Ladies and Gentlemen,

BOK Financial Corporation is a $25 billion financial holding company ("BOK Financial" or the "Company"). The Company's wholly owned subsidiary, BOKF, NA, provides full service commercial banking services with branches in Oklahoma, Texas, New Mexico, Arizona, Colorado, Kansas and Arkansas. We appreciate the opportunity to comment on the Notices of Proposed Rulemaking regarding Annual Stress Tests.

We have several comments which we hope policy makers will find useful, and address questions posed in the proposed rules.

Disclosure content and concern about requiring de-facto earnings guidance

The item we feel most strongly about in this NPR is the content of the stress scenario disclosures and the possibility that the disclosure requirements could effectively require banks to provide earnings guidance.

BOK Financial is a consumer of stress test information due to some of our counterparty exposures. We will soon be a provider of stress test information due to this rule. We believe we have a balanced view of what content optimally serves both needs. We believe that content should only cover the stress scenarios, and only contain information that is necessary to gain comfort with the reasonableness of the stress scenario results.

We are concerned because baseline disclosures and earnings guidance would:

1. Cause a diversion of valuable management attention away from managing banks for long-term performance toward managing Wall Street expectations;
2. Provide little or no value in the assessment of capital adequacy while generating high costs; and
3. Increase liability exposure and administrative burden as a result of our duty to update earnings guidance per SEC requirements.

BOK Financial does not currently provide earnings guidance and is strongly opposed to doing so in the future. As many institutions have purposefully chosen not to provide earnings guidance to focus on long-term performance, we have very real concerns that a de-facto earnings guidance requirement would have negative ramifications for banks. Public policy should not encourage institutions and their shareholders to focus on short term results. We recommend the content of disclosures to be limited to only the stress scenarios, and include:

1. Cumulative loss rates by major asset category;
2. Ending Loan Loss Reserve; and
3. Ending capital ratios and the minimum level of capital ratios at any point in the forecast period.

We believe the content should specifically exclude:

1. Baseline results;
2. Quarterly results from any scenario; and
3. Information which could reveal sensitive business plans or earnings estimates

With cumulative loss rates by category, ending LLR, and the publicly available data on historical results, market participants will have a sufficient basis to assess the viability of an institution.

Too much detail can be counterproductive in the effort to support public confidence in capital adequacy. Detail out of context can appear unreasonable and be blown out of proportion resulting in an unwarranted decline in confidence.

<u>Timing of disclosures</u>

Because the public is likely to assume that the disclosed results will be comparable among banks, it would be valuable to allow at least the first cycle of stress tests to be reviewed by the supervisory regulators prior to public disclosure. The intervening regulatory feedback provided to the banks will help reduce the variability in application of scenarios among banks and mitigate the impact of such an assumption by the public.

Unlike the larger banks which have both greater resources and more experience in generating detailed stress results, smaller banks will have neither the resources, nor the robust historical loss data upon which to base statistical loss forecasting models. In addition, there may be supervisory regulators who will be reviewing those results for the first time, allowing time for supervision and regulation areas to compare notes would also improve consistency in application.

Public confidence in the quality of the content of the stress tests is an important goal and we believe that public disclosure of the first round of $10 billion - $50 billion bank stress tests may detract from that objective.

We recommend a two cycle delay prior to disclosure of the $10 billion -$50 billion bank stress test results.

Coordination between agencies affecting the same institution
We believe it imperative that the regulatory agencies to commit to a high degree of consistency in all stress test requirements including the macroeconomic assumptions of the stress scenarios and the timing of, framework around, and output required by the tests.

Many smaller firms will have multiple regulatory agencies reviewing essentially the same entity. For example the Federal Reserve's requirements will apply to the stress test performed on the consolidated corporation and the OCC's requirements will apply to the stress test on the subsidiary bank for many firms. The difference between the subsidiary bank and the consolidated company is frequently insubstantial for smaller organizations. The costs of completing two dissimilar sets of stress tests would be considerable and provide little benefit.

More importantly, the market will expect essentially the same results from the subsidiary bank and the consolidated holding company in those cases where the holding company operations and assets are primarily limited to the subsidiary bank. The production of conflicting stress test results resulting from differences in the requirements of the different regulatory agencies would unnecessarily reflect poorly on the bank, the regulators, and the stress testing process as a whole.

Articulate appropriate expectations for $10 billion - $50 billion banks
In light of the rigor required of the very large banks, we hope a different standard will be applied to the $10 billion -$50 billion banks reflecting the lower complexity, the de-minimis systemic importance, and the level of resources of those institutions. We further hope that the standard applied to the $10 billion -$50 billion banks can be clearly articulated to minimize confusion.

Director Qualifications requirements
We applaud the goal of having capable and effective board members on risk committees. We also support the goal of having the requirements scale with the size and complexity of the institution. However, we remain concerned about the potential adverse impact of a rigid definition of board risk committee qualification applied to $10 billion -$50 billion banks located in geographies where people of that specific definition largely do not reside.

- The specific definition cited in the Federal Reserve NPR (risk management expert with experience in identifying, assessing, and managing risk exposures of large financial firms) could be unduly restrictive in practice
- Many well-run regional banks operate in geographies that do not have a major financial center in their footprint
- Some flexibility should be provided in the case of the $10 billion -$50 billion banks
- During the financial crisis, $10 billion -$50 billion banks with directors who did not meet this definition considerably outperformed the larger banks with directors who did meet this definition

We recommend that for $10 billion - $50 billion banks, board member qualifications, risk committee structure and reporting structure of risk management executives allow for some flexibility and avoid rigid, overly prescriptive requirements, while providing local regulators a basis for requiring an improvement in director talent or governance structure when necessary.

Provide guidance on how regional banks should interpret national macroeconomic statistics

Regulatory guidance on the completion of CCAR and CAPpr has included macroeconomic projections for the baseline and stress case scenarios at a national level. Many of the $10 billion - $50 billion banks serve markets which incorporate only one or a few states. Current and historical economic conditions in those few states may be very different than national conditions. If the goal is to have a consistent level of environmental stress modeled by all banks who participate in the stress test, we recommend that future regulatory requirements include guidance on how to translate the national macroeconomic drivers into regional drivers to accomplish this goal.

Triggers for $10-$50 billion banks

The Federal Reserve Board NPR includes capital adequacy triggers for banks over $50 billion reflecting the systemic importance of those institutions. We applaud both the recognition that $10 billion - $50 billion banks are not remotely systemically significant and the recognition of the absence of a case for rigid formal triggers for those smaller institutions.

In fact, given that the NPR on bank capital has not yet been published, it would be difficult for us to comment productively on specific triggers. If the Basel III AOCI volatility, and DTA and MSR exclusions are included in the final capital rule, that would make capital highly volatile for reasons that may have nothing to do with credit stress or a threat to safety and soundness. Considerably inefficient outcomes could be produced by the interaction of rigid triggers and certain capital rule provisions which would be particularly adverse to $10 billion - $50 billion banks.

We support the proposed approach to triggers as applied to $10 billion - $50 billion banks, leaving discretion to supervisory regulators to consider circumstances in the application of remediation for the smaller banks. Different remediation approaches may make sense based on the different causes of changes in capital levels.

Pro-cyclicality of market based triggers

While the proposed triggers would not affect the $10 billion - $50 billion banks, we are concerned that market-based triggers could negatively affect the banking system as a whole as well as the broader economy. Generally speaking, there is considerable risk of market-based triggers being pro-cyclical. Equally importantly, market-based triggers could be manipulated by large market participants who could profit by destabilizing the entities that regulatory reform aims to make more stable. If one bank were targeted in such a manner, there is risk that the market perception of other banks would be tainted as a result. Market-based metrics may be better suited as internal regulatory early warning devices, rather than as capital action triggers.

Internal Ratings Based Capital Calculation Requirement

Section II D of the OCC NPR articulates a requirement to calculate capital requirements over the nine quarter forecast period pursuant to Internal-Ratings-Based and Advanced Measurement Approaches under Basel II. For $10-$50 billion banks this is a relatively high cost and relatively low value exercise. Banks in this size range will be unlikely to have the years and years worth of credit migration data that would be necessary to formulate a relevant projection. Using external data defeats the purpose of an Internal-Ratings-Based approach since it is supposed to be internal. Since the value of this requirement in assessing capital adequacy for smaller banks will be low, and the costs of generating it will be high, this seems to be an excellent candidate for elimination for the $10-$50 billion institutions. We recommend eliminating that requirement.

Conclusion

Thank you for the opportunity to provide our feedback. We believe that incorporating some of the above recommendations can improve the cost / benefit equation of the proposed regulatory requirements from an overall perspective. Please contact us if we can clarify or provide additional background to any of our recommendations or comments.

Sincerely,

Martin Grunst, CFA
SVP and Treasurer