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

April 30, 2013

Dear Mr. Frierson:

Re: Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations (Proposed Regulation YY; Docket No. 1438; RIN 7100 AD 86)

UBS appreciates this opportunity to comment on the notice of proposed rulemaking issued by the Board of Governors of the Federal Reserve System (the "Board") to implement the enhanced prudential standards of section 165 and the early remediation provisions of section 166 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Proposed Rules").

We have participated in the preparation of comment letters written by The Clearing House Association, the Institute of International Bankers and Institute of International Finance. We strongly support the comments and recommendations in those letters. This letter is meant to supplement those letters, and specifically addresses aspects of the Proposed Rules that are of special importance and concern to us.

UBS strongly supports developing effective global enhanced prudential standards for large banks and we appreciate the ongoing efforts of the Board to strengthen the resiliency of the US financial system. However, because the Proposed Rules do not adequately recognize comparable non-US regulatory regimes, for a global Foreign Banking Organization ("FBO") like ours, the Proposed Rules would increase the complexity and cost of doing business in the US. We believe this could well lead to an increase in concentration risks in the US banking and securities markets or, alternatively, increase risk in the unregulated shadow banking system.

As an alternative, UBS urges the Board to:

1. provide greater organizational and structural flexibility to individual firms, particularly on issues such as use of alternative legal structures;
2. recognize comparable regulatory regimes, including calculation methodologies and reporting requirements to ease implementation burdens and reduce technology risk;
3. consider the operating environment, substantial existing regulatory change requirements, long-term nature of capital and liquidity planning, and the extent of global infrastructural changes necessary in setting implementation timeframes; and
4. assess the need for certain aspects of the Proposed Rules given the existing suite of US and home country regulations aimed at reducing the overall risk profile of banking institutions operating in the US.

UBS believes these changes would materially benefit the US & global financial system and are consistent with improving systemic safety & soundness.

Further details with regard to these comments follow.

1. **Alternative Legal Structures**

The main purpose of the proposed US intermediate holding company ("IHC") requirement appears to be to facilitate enhanced prudential standards and early remediation requirements across an FBO's US operations conducted outside of agencies and branches. We believe the single IHC structure is unnecessary to achieve these ends and inappropriately restricts firms' abilities to choose the most effective organizational structure that supports their business model. As proposed, the IHC requirement will have negative impacts, including the increased complexity detailed below, major restructuring costs associated with formation of a single US intermediate holding company and additional ongoing operational expenses.

As a diversified financial services firm operating in the US, UBS has well established businesses that are separately organized and operated. Implementing the single IHC requirement will require significant time, discussions and negotiations with various affected stakeholders. Situations where changes in ownership are required can be particularly challenging, and although the Proposed Rules provide for alternatives to the single IHC structure under exceptional circumstances, we encourage the Board to show more flexibility towards alternative structures that otherwise adequately address the regulatory objectives for capital, liquidity and reduced systemic risk. Inflexibility on this point will greatly increase the cost and complexity of executing the significant organizational changes proposed, in many cases without additional benefits.

2. **Recognition of Comparable Regulatory Regimes**

Under the Basel III accord, the Basel Committee on Banking Supervision (the "BCBS") has promulgated new and improved international standards to address widely acknowledged shortcomings in its earlier regulatory standards. At the direction of our home country supervisor, the Swiss Financial Market Supervisory Authority ("FINMA"), UBS is already implementing the Basel III standards, while Basel III implementation in the US and many other countries outside of Switzerland has generally been delayed. The Proposed Rules would require FBOs to measure and report using US-specific capital and liquidity calculation methodologies, in some cases aligned to earlier Basel standards and US GAAP. Duplicative reporting requirements using different, but comparable, risk metrics and accounting rules adds significant costs and operational risks with very limited benefit, especially where institutions like ours are already producing substantially similar information for home country regulators.

As proposed, the US-specific reporting and disclosure requirements add a significant layer of complexity and cost, and often will not adequately reflect the fully diversified global risk profile of a FBO. For UBS, many of the US-specific reporting requirements and risk measures overlap significantly with what is required by FINMA. Requiring firms that are already operating under Basel III standards at the direction of their home regulator to revert to outdated and less advanced standards for their US activities is highly inefficient.

2.1. Strength of the New Swiss Financial Regulatory Regime for Large Banks and TBTF

The large Swiss banks with international operations have significantly improved their overall capital, liquidity and funding positions since the 2008-9 financial crisis. UBS, in particular, has substantially deleveraged, decreased use of short-term wholesale funding and improved its overall liquidity position. As of year-end 2012, our Basel III tier one ratio was at 15.3% on a phased-in basis and 9.8% on a fully-applied basis and both our pro-forma Basel III Liquidity Coverage Ratio and Net Stable Funding Ratio were in excess of 100%.

For many years now, UBS has worked closely with the BCBS, the Core Supervisors College, Senior Supervisors Group and national regulators in all of the jurisdictions where we operate to improve transparency and collective understanding of the need for effective coordination of prudential regulation and its impact on international capital flows. As part of those efforts, we prepared and submitted our Recovery and Resolution Planning activities to address Too Big to Fail ("TBTF") concerns in numerous jurisdictions, including Switzerland, the US and the UK. In particular, working with the respective authorities, comprehensive resolution planning has been developed for critical financial operations and systemically relevant functions in Switzerland, the US and the UK. The Swiss TBTF regime includes materially higher capital requirements than Basel III and an enhanced liquidity framework, both of which UBS is already implementing pursuant to Swiss law.

In line with the recommendations of the Financial Stability Board ("FSB"), Switzerland has also established a Crisis Management Group ("CMG") where Swiss, US and UK authorities are working together to establish credible and operationally effective global resolution plans for large Swiss financial institutions, including UBS. The Proposed Rules create the impression that the Board questions the efficacy of the CMG process for Systemically Important Banks ("SIB"). Furthermore, since the Board is a member of the CMGs for many SIBs, jurisdictions that are not included in the CMG may become confused that the US places little emphasis on this global process.

2.2. Effects of Ring-Fencing US Operations and Mandatory Remediation Requirements

We are concerned that the Proposed Rules represent a significant move towards subsidiarization of internationally active banks and represents a fundamental change in regulatory approach that could trigger or accelerate consideration of similar measures in other financial centers.

As a leading global universal bank, UBS' business model depends on broadly diversified sources of revenues and funding, and on diversification of risk across our entire organization. We believe this model is substantially more resilient and has greater risk absorption capacity than more specialized or narrowly focused models. Segregating and separately managing capital and liquidity for a portion of a global business increases overall costs and capital requirements. Segregating risk pools reduces diversification benefits and risk absorption capacity, increasing financial resource consumption without productive benefit while trapping or stranding liquidity locally will interfere with efficient global liquidity management, which was recognized as a stabilizing factor during the financial crisis.

At the individual firm level, geographic segregation of risk, liquidity and capital management creates inefficiencies that harm the safety and soundness of FBOs operating in the US. For example, on a stand-alone basis our US operations are likely to appear riskier than they actually are when embedded within our diversified global structure. In many cases netting and collateral pools under a single master agreement would be fragmented and local exposure calculations could fail to properly reflect the substantial value from risk pooling across the entire UBS organization. In many instances it will also lead to duplicative requirements where both home and host country regulations penalize banks for capital and liquidity that is trapped in another jurisdiction. Together the inefficiencies introduced will likely result in a reassessment of investment levels and commitments.

3. **Scope and Magnitude of Regulatory Change and Implementation Timeframe**

Since the recent financial crisis, the US and the global regulatory community have and continue to introduce broad and sweeping changes to banking regulations. Both the scope and rate of global regulatory change are unprecedented, and the ability of firms to adapt and keep up with this is a significant challenge. The US has already introduced significant regulatory changes that are substantially reducing the risk profile of operations that can be conducted by banking organizations operating in the US. Collectively, we believe these measures may reduce liquidity and increase market volatility for everything from government securities to equities and commodities. Given this, UBS recommends that the Board consider performing a comprehensive quantitative and qualitative impact assessment to gauge the potential market reactions before finalizing the Proposed Rules.

We are also concerned that the Proposed Rules have been released before similar rules for the large US Bank Holding Companies are finalized, and with a proposed implementation schedule that appears unrelated to a timetable for US adoption and implementation of the Basel III final standards. After considerable analysis, including in-depth quantitative and qualitative impact assessments, the BCBS has carefully designed the phased implementation schedule for Basel III to minimize potential adverse market impacts.

At a minimum, given the significant re-engineering of systems and operations required, we would strongly urge the Board to introduce a phased implementation schedule and extend the final implementation date to conform to the timetable by which the US implements the international principles contained in Basel III.

4. **High Cost of Operational and Risk Management Inefficiencies**

Meeting the Proposed Rules' substantial requirements on the aggressive schedule proposed is expected to be a complex and expensive undertaking with significant IT implementation lead times and costs, as existing global systems and processes developed over many years need to be redesigned. More specifically, development of prescriptive US centered risk governance, risk management, operating models and internal controls will require major infrastructure changes to comply with the requirements around US stress testing, US Basel III requirements, regulatory and risk reporting and increased data requirements to be sourced and consolidated across all US entities.

Because large firms vary greatly in their activities, internal organizational structures and resources, we believe a firm should be free to design their own risk management systems and structures, subject to supervisory determination of effectiveness. Highly prescriptive regulation of internal organizational structures will be counterproductive, and there is little evidence to suggest that this approach can more effectively safeguard the financial system from risk management failures. Similarly, overly detailed fine-tuning of risk models, such as in the mandatory reattribution of credit protection, seems unnecessary and possibly counterproductive. We respectfully submit that applying the same detailed risk measurement and management approaches at all large institutions in fact may increase the level of volatility and systemic risk. If the overarching objective of the Board and other regulators is protecting systemic safety and soundness, we believe their resources are better focused on finding ways to improve international frameworks that will make the recovery and resolution plans for large global banks more efficient and effective.

4.1. Benefits of Continued International Regulatory Cooperation

Under the aegis of the FSB and the BCBS, regulators should continue to collaborate on an international framework for efficient and effective supervision of global banks. Work on the topic of cross-border resolution is currently on-going and should continue to be supported by all stakeholders.

The Proposed Rules signal a lack of confidence on the part of the Board in the ability of global regulators to continue working together cooperatively to supervise and potentially resolve internationally active banks. This is a concerning development in international financial regulation and undermines the progress that has been made towards efficient global framework for regulation of the large international financial firms. Wholly local resolution is a sub-optimal solution which would likely lead to higher overall losses.

The major global economies will benefit if the US continues its leadership on international financial regulatory cooperation and comity, rather than isolationism.

Again, we appreciate this opportunity to comment on the Proposed Rules. Please contact us if you have questions about our comments or any information contained in this letter.

Sincerely,

Tom Naratil

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Group Chief Financial Officer

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Copies to:
Eidgenössische Finanzmarktaufsicht FINMA, Dr. Patrick Raaflaub
Schweizerische Nationalbank, Prof. Dr. J. Thomas Jordan
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