The Clearing House
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August 11, 2014

Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C 20551
Attention: Robert deV. Frierson, Secretary
Docket No 1492
RIN 7100-AE 20

Office of the Comptroller of the Currency
400 7th Street, S. W.
Suite 3E-218, Mail Stop 9W-11
Washington, D.C 20219
Attention: Legislative and Regulatory Activities
Docket ID OCC-2014-0015
RIN 1557-AD85

Federal Deposit Insurance Corporation
550 17th Street, N. W.
Washington, D.C 20429
Attention: Robert E. Feldman, Executive Secretary
RIN 3064-AE18

Re: Proposed Amendments to the Capital Plan and Stress Test Rules

Ladies and Gentlemen:

The Clearing House Association L.L.C. ("**The Clearing House**")[1] appreciates the opportunity to comment on the notice of proposed rulemaking entitled *Amendments to the Capital Plan and Stress Test Rules*[2] (the "**NPR**", and the rules set forth therein, the "**Proposed Rules**") issued by the Board of Governors of the Federal Reserve System (the "**Federal Reserve**"). The Proposed Rules would amend the Federal Reserve's capital plan rule (the "**Capital Plan Rule**")[3] and supervisory stress test and company-run stress test rules (the "**Stress Test Rules**")[4] applicable to, among other entities, bank holding companies ("**BHCs**") with $50 billion or more in total consolidated assets ("**Covered Companies**"). We also are commenting on aspects of the related notices of proposed rulemaking issued by the Office of the Comptroller of the Currency ("**OCC**") and the Federal Deposit Insurance Corporation

1 Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing – through regulatory comment letters, amicus briefs, and white papers – the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost $2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the United States. *See* The Clearing House's web page at www.theclearinghouse.org.

2 79 Fed. Reg. 37420 (July 1, 2014).

3 12 C.F.R. § 225.8.

4 12 C.F.R. Part 252, Subparts B, E and F.

("**FDIC**") that propose to make parallel amendments to their respective company-run stress test regulations.[5]

The Clearing House supports strong capital planning, and we agree that credible and robust stress tests can be invaluable tools for effective capital planning and serve to enhance the stability of the financial system as a whole. The NPR and Proposed Rules would revise important aspects of the Capital Plan Rule and Stress Test Rules in a manner that resolves several areas of on-going industry concern. We particularly appreciate the Proposed Rules' three-month shift in the capital plan and stress test cycle to avoid overlap with the year-end process of closing the books and the carve out from distributions requiring Federal Reserve approval for new issuances of accretive capital instruments as proposed. We believe, however, that certain aspects of the NPR (and the parallel OCC and FDIC proposed amendments) would benefit from modification or enhancement as discussed in greater detail below.[6]

I. The Federal Reserve should eliminate in the final rules the proposed requirement for matched mechanical quarterly net issuances/distributions or, at the very least, permit a Covered Company to make planned capital distributions in a given quarter – both dividends and share repurchases – irrespective of whether it executed all planned capital issuances in or before the quarter for so long as the planned capital issuance would not be necessary for the Covered Company to meet the quantitative tests of the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR").

The Proposed Rules would prevent a Covered Company from making capital distributions in a given quarter to the extent that it does not execute capital issuances for that same quarter reflected in its capital plan. The preamble to the NPR states that this proposal is intended to address potential weaknesses in a Covered Company's capital planning processes and methodologies when it consistently fails to execute on planned capital issuances.[7] While we recognize the policy goals behind this aspect the Proposed Rule, The Clearing House respectfully submits that the Federal Reserve's mechanical approach of tying capital distributions to consummated capital issuances on a quarterly basis is significantly flawed as a practical matter.

The Proposed Rules, if adopted, would create a significant disincentive for a Covered Company to include in its capital plan issuances that are not necessary for the company to meet its regulatory capital targets (taking into account the CCAR required ratios[8]) but that the Covered Company would pursue if market conditions warrant. Moreover, such rigid tying of capital distributions to planned capital actions on a quarter-by-quarter basis is impractical given that markets do in fact affect, and from

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5 79 Fed. Reg. 37231 (July 1, 2014) (OCC); 79 Fed. Reg. 37235 (July 1, 2014) (FDIC). We refer in this comment letter to the Federal Reserve, OCC and FDIC collectively as the "**Agencies**".

6 The Clearing House also endorses the comment letter submitted by the Institute of International Bankers on the NPR dated August 11, 2014.

7 *See* 79 Fed .Reg. at 37425.

8 References to the CCAR required ratios in this comment letter include those ratios as calculated under the Federal Reserve's supervisory severely adverse scenario.

the perspectives both of sound management and supervisory oversight should affect, decisions as to when and whether to issue capital instruments. Under the Proposed Rules, a Covered Company could be effectively forced to issue capital during a particular quarter in accordance with the projection found in its capital plan in order to pay planned dividends during such quarter irrespective of whether market conditions are at least satisfactory, even if not optimal. Covered Companies could be forced to bear adverse pricing for their securities in order to meet an inflexible and artificial regulatory temporal matching requirement.

It is simply not realistic to expect that Covered Companies will be able to predict actual market conditions and related capital issuance activities with precision on a quarter-by-quarter basis up to 12 months in advance. Covered Companies' experience is that long-contemplated capital issuances can be delayed by adverse market conditions having nothing to do with the proposed issuer or the financial services industry or a legal/regulatory matter that was not known at the time the capital plan was submitted. For example, a bank may become subject to unanticipated black-out periods as a securities law matter due to a variety of reasons, such as a possible pending acquisition, that may practically prevent the institution from completing a securities offering during a given quarter as originally outlined in the capital plan drafted nine months earlier. Similarly, market opportunities for issuance of a particular type of securities can arise on relatively short notice. The consequence of this aspect of the Proposed Rules would be to effectively eliminate Covered Companies flexibility to appropriately react to the market environment.

More fundamentally, it is very often the case that proposed issuances contemplated in a Covered Company's capital plan are not needed for the company to meet the 5% Tier 1 common ratio ("**T1C Ratio**") and minimum regulatory capital ratios required to pass the CCAR quantitative assessment or otherwise meet the projections set forth in Covered Companies capital plans as to which the Federal has issued its non-objection. The Proposed Rules, however, would treat all capital issuances as essential. Accordingly, The Clearing House urges the Federal Reserve to eliminate in the final rules the requirement tying capital distributions to planned capital actions on a quarter-by-quarter basis. We respectfully submit that a better approach to achieving the Federal Reserve's policy goals would be to address perceived deficiencies in the capital planning process through the Federal Reserve's existing general supervisory authority.

At minimum, we recommend that the Federal Reserve allow a Covered Company to proceed with planned distributions in a given quarter for so long as the Covered Company has completed capital issuances totaling at least the amount necessary to maintain (x) the required T1C Ratio of 5%[3] and (y) the applicable minimum regulatory capital ratios, in each case, under the supervisory severely adverse scenario as of the end of the then current quarter taking into account the planned distribution on a *pro forma* basis (the "**Requisite Issuance Amount**"). The Federal Reserve would calculate and confidentially

9 We have included in our proposed approach the requirement that a Covered Company must meet the 5% T1C Ratio requirement consistent with the current requirements under the Capital Plan Rule and Stress Test Rules to the extent that the Federal Reserve does not follow our suggestion in Part X to eliminate the 5% T1C Ratio requirement for capital planning and stress testing purposes. If our suggestion in Part X is accepted, a Covered Company would be required to meet only the requisite final U.S. Basel III-based regulatory capital requirements, including the applicable Common Equity Tier 1 ("**CET1**") requirement.

provide to each Covered Company its own Requisite Issuance Amount for each quarter in the planning horizon as part of the Federal Reserve's annual objection/non-objection response prior to the public release of the CCAR results. For any given quarter, the Federal Reserve's Requisite Amount would be reduced by the aggregate amount of any capital issuances in excess of the Required Issuance Amount for any prior quarters. For any proposed distribution, if a Covered Company has previously completed capital issuances in an amount that meets or exceeds its then applicable Requisite Issuance Amount (including subtracting any overages from prior quarters), the Covered Company could proceed with its planned capital issuances for that quarter. If the Covered Company has not raised enough capital in or prior to a given quarter, the Covered Company would have to adjust the amount of its capital distributions for the quarter by the amount of any shortfall.[10]

This method can be illustrated as follows:

- Covered Company A's approved capital plan indicated that it would raise \$800 million of capital and make \$700 million of capital distributions in year X, with \$200 million of common stock issuances and \$175 million of normal common stock dividends in each of the four quarters of the year. The Federal Reserve determines (and notifies Covered Company A) that its Requisite Issuance Amount for each quarter is \$100 million of common stock issuances in order to proceed with its planned \$175 million of common stock dividends for that quarter and still meet or exceed the required 5% T1C Ratio and the minimum regulatory capital ratios under the supervisory severely adverse scenario for each quarter. As such:

(in millions)	*Q1*	*Q2*	*Q3*	*Q4*
Required Issuance Amount:	*\$100*	*\$100*	*\$100*	*\$100*
Actual Issuance Amount:	*\$100*	*\$0*	*\$150*	*\$10*
Planned Distribution Amount:	*\$175*	*\$175*	*\$175*	*\$175*
Actual Distribution Amount:	*\$175*	*0*	*\$175*	*\$135 - i.e., \$175 minus \$40 (\$100 minus (\$10 issued in Q4*

10 Of course, the Federal Reserve would retain its general supervisory powers with respect to capital distributions to the extent there was a danger of a Covered Company making distribution under this approach that the Federal Reserve believed to be unsafe and unsound.

				plus $50 excess from Q3))

This methodology would preserve much needed flexibility in the timing and amount of planned capital issuances by Covered Companies, while simultaneously ensuring that they do not make any capital distributions without also having raised sufficient capital to ensure that the minimum T1C Ratio and other minimum capital ratios are always met on a *pro forma* basis under the Federal Reserve's severely adverse scenario.

II. The Agencies should expeditiously adopt an interim final rule applying the proposed timing adjustments to the capital plan and stress test cycles, deadlines and planning horizon for the upcoming cycle beginning October 1, 2014.

The Proposed Rules would shift forward by approximately three months the start date of the annual capital plan and supervisory and company-run stress test cycles, the filing date for capital plans and the results of company-run stress tests and the related planning horizon. The proposed modifications, however, would not apply to the upcoming capital plan and stress test cycle beginning on October 1, 2014 and ending September 30, 2015. Rather, they would amend the cycle that would begin on October 1, 2015 to instead begin on January 1, 2016 and end December 31, 2016 and subsequent cycles thereafter. Thus, for Covered Companies, the last filing under the upcoming annual capital plan and stress test cycle beginning October 1, 2014 would be January 5, 2015 for the planning horizon of October 1, 2014 through December 31, 2016. The first filing under the proposed modified annual capital plan and stress test cycle beginning January 1, 2016 would be on April 5, 2016 for the planning horizon of January 1, 2016 through March 31, 2018.

The January 5 deadline for the submission of capital plans and the results of company-run stress tests has been very challenging for Covered Companies' management and finance and risk staff, requiring a great amount of time and effort during the same period during which normal year-end and financial closing activities and "living will" requirements are addressed, as well as the seasonal holidays. The Clearing House greatly appreciates the Agencies' acknowledgement of these challenges, and we strongly support the proposed shift in the cycles, submission and publication dates and related planning horizon for capital plans and company-run stress tests. We anticipate the industry will be broadly supportive of the modifications to the capital plan and stress test cycle, do not anticipate significant hurdles in its implementation, and accordingly urge the Federal Reserve to expeditiously adopt an immediately effective interim final rule that would apply these timeline modifications to the upcoming capital plan and stress test cycle commencing October 1, 2014. That cycle would now instead begin on January 1, 2015 and Covered Companies would submit their capital plans and the results of their annual stress tests on April 5, 2015. The Clearing House also requests the OCC and FDIC to take similar action and accelerate the effectiveness of their respective proposed timing adjustments under their annual company-run stress test rules.[11]

[11] 12 C.F.R. Part 49 (OCC); 12 C.F.R. Part 325 (FDIC).

We recognize that applying the timeline shift to the upcoming October 1, 2014 cycle would create a "gap" quarter – the second quarter of 2015 – for which the non-objection of a Covered Company's capital plan submitted on January 5 of this year is not covered with respect to any planned capital distributions. With respect to distributions during that "gap" quarter, we recommend that the Federal Reserve allow a Covered Company to make capital distributions (both dividends and share repurchases) that were contemplated for the second quarter of 2015 in its capital plan submitted in January 2014 or incrementally increase distributions contemplated for that quarter consistent with the existing *de minimis* exception in the Capital Plan Rule.[12]

III. The Agencies should release the macroeconomic stress scenarios by January 1 of each year and the description of the global market shock component and any other additional components or scenarios by January 15.

The Proposed Rules do not amend the approximately six-to-seven-week time span between the release date for the supervisory macroeconomic stress scenarios and the capital plan and stress test results filing deadlines. Under the Proposed Rules, the Federal Reserve would provide scenarios that Covered Companies must use in conducting annual stress tests by November 15 for the January 5 filings for the upcoming October 1, 2014 cycle and by February 15 for the April 5 filings for the modified January 1 cycle. Similarly, the Proposed Rules retain the approximately five-week time span between the release dates for the descriptions of the global market shock component and any additional components or scenarios that may be required (through notice-and-comment procedures). Under the Proposed Rules, beginning with the January 1, 2016 cycle, those descriptions would be provided by March 1 for the April 5 filings.

The Clearing House and other industry participants on a number of occasions have advocated that the capital planning/CCAR process would greatly benefit from additional time between the date on which the Federal Reserve releases stress test scenarios and the filing dates for capital plans and stress test results.

Covered Companies begin preparing the BHC stress scenario required in connection with their capital plans at the start of the capital plan and stress test cycle when relevant economic data has been released but the Federal Reserve has not yet provided its scenarios (*i.e.*, in October under the current timeline). Receiving the stress scenarios only approximately six to seven weeks before the due date of the capital plan submission has made it challenging for a Covered Company to ensure that its BHC stress scenario meets the Federal Reserve's expectations, including with respect to the impact to projected pre-tax income. In light of the Federal Reserve's increased focus in its qualitative evaluation on a Covered Company's ability to design appropriate stress scenarios that take into account its own idiosyncratic vulnerabilities and operations as discussed in the NPR,[13] it is very important for the quality of the capital planning/CCAR process that Covered Companies be given sufficient time to appropriately tailor their respective scenarios. This abbreviated time span also has made it difficult for Covered Companies to fully meet the Federal Reserve's expectations with respect to Covered Companies'

12 *See* 12 C.F.R. § 225.8(f)(2).

13 *See* 79 Fed. Reg. at 37424.

governance of the capital planning process, including appropriate review, challenge and documentation of that process, and corporate approval process.

Therefore, we respectfully urge that the macroeconomic stress scenarios be provided not later than January 1 of each year and the description of the global market shock component and any other components or scenarios be provided no later than January 15 of each year in order to give Covered Companies more time to complete the substantial amount of work in line with the Federal Reserve's expectations. We also recommend that the OCC and FDIC take similar action in their respective final rules with respect to the release date for stress scenarios under their annual company-run stress test rules.

IV. The commentary accompanying the final rules should eliminate the expectation that the BHC stress scenario will result in an impact to projected pre-tax net income that is "at least as severe as" the results of a Covered Company's company-run stress test under the Federal Reserve's severely adverse scenario.

The Proposed Rules would define the "BHC stress scenario" required in connection with Covered Companies' capital plans as "a scenario designed by the BHC that stresses the specific vulnerabilities of the BHC's risk profile and operations, including those related to the company's capital adequacy and financial condition".[14] The NPR notes that an appropriately tailored scenario is expected to result in an impact to projected pre-tax net income that is "at least as severe as" the results of the Covered Company's company-run stress test under the Federal Reserve's severely adverse scenario. However, the NPR also states that a stress scenario that produces regulatory capital and T1C Ratios that are lower than those produced under the Federal Reserve's severely adverse scenario would not, by itself, constitute an appropriate BHC stress scenario.[15]

The Clearing House believes that robust stress scenario development is extremely important. However, we urge the Federal Reserve to eliminate its "at least as severe as" expectation for the BHC stress scenario in the commentary accompanying the final rules. We do not believe such an expectation – which is likely to be applied as a standard if included in the commentary accompanying the final rules – contributes to robust stress scenario development. Rather, it is likely to have the consequence, presumably unintended, of causing a Covered Company to design the BHC stress scenario to meet this artificial expectation rather than the company's own evaluation of the specific risks that it faces.

Furthermore, as noted above in Part III, Covered Companies begin preparing the BHC stress scenario at the start of the capital plan and stress test cycle when relevant economic data has been released but the Federal Reserve has not yet provided its scenarios. Setting the Federal Reserve's expectations for this scenario in relation to the Federal Reserve's severely adverse scenario could lead to Covered Companies waiting until they receive the Federal Reserve's scenarios before developing the BHC stress scenario. At that relatively late point in the overall process, little time is left for a Covered Company to "run" both its BHC stress scenario and the Federal Reserve's and, depending on the

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14 *Id.* at 37431.

15 *Id.* at 37424-37425.

outcome, significantly alter the BHC stress scenario and "re-run" it. The "at least as severe as" expectation would further compress an already tight timeline for scenario stress testing, potentially compromising the quality of both scenario development and stress testing. Moreover, this would effectively cause Covered Companies to engage in results oriented scenario design efforts that may not be reflective of what the company believes reflects the real risks to the franchise, but rather meets artificial supervisory expectations as set forth in the commentary to the Proposed Rules.

We submit that the better approach is for Covered Companies to design the BHC stress scenario to truly reflect their own realistic expectations and perceived vulnerabilities as set forth in the instructions for CCAR 2014. The Federal Reserve will continue to evaluate the development of BHC stress scenarios as part of the qualitative assessment of Covered Companies' capital planning processes.

V. A Covered Company's capital plan should not be subject to an objection for varying planned capital distributions based on whether they occur beyond the four-quarter period.

The Proposed Rules do not modify the current ability of the Federal Reserve to object to a Covered Company's capital plan if the assumptions and analysis underlying the capital plan, or the Covered Company's methodologies for reviewing the robustness of its capital adequacy process, are not reasonable or appropriate. The NPR notes that, in the Federal Reserve's view, the observed practice of widely varying planned capital distributions based on whether they occur in an "out-quarter" *i.e.*, the final three quarters of the planning horizon that are not subject to objection in the current capital plan cycle) as compared to a quarter that is subject to a possible objection in the applicable or a subsequently submitted capital plan, may result in an objection to a capital plan on the basis that this increasing practice erodes the credibility of Covered Companies' capital plans. The NPR also states that a Covered Company "should project its distributions in the final three quarters of their capital plans based on realistic assumptions about the future and in a manner broadly consistent with, or higher than, previous quarters, unless it is in fact planning to reduce its distributions."[16]

We respectfully submit that there are in many cases completely legitimate reasons why this variation occurs consistent with prudent capital planning given that many Covered Companies attempt to manage their capital to stressed and nominal ratios. Indeed, if a Covered Company's capital ratios turn out to be actually *lower* than what the Covered Company projected in its capital plan, it can adjust its capital distributions downward to achieve its intended capital results. However, if its capital ratios turn out to be actually *higher* than originally expected, it cannot adjust its capital distributions upwards without an arduous re-submission of its capital plan. Thus, in its subsequent capital plan submission, the Covered Company may well raise its planned capital distributions for the year to manage its then-prevailing capital levels and ratios. Common stock repurchases, in particular, are typically used for capital management. In this case, the reason the Covered Company's assumptions in reality turned out to be different could be simply that its asset or risk-weighted asset growth in the first year turned out to be lower than projected in the baseline scenario or intervening events transpired, such as strategic transactions or market conditions.

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16 *Id.* at 37426.

We appreciate the Federal Reserve's concern over "gaming" the CCAR process, and we acknowledge that certain practices may deserve additional supervisory scrutiny (for example, if a Covered Company has a pattern of both increasing its capital distributions and lowering its planned projected capital ratio in the first year of a subsequent capital plan relative to prior year "out quarter" projections). However, we urge the Federal Reserve to recognize in the final rules that there are appropriate reasons why a Covered Company may raise planned capital distributions in subsequent years compared to the "out quarters" of its prior capital plan that are consistent with prudent capital management and, accordingly, not view this practice as being automatically suspect.

VI. Covered Companies may face impediments in complying with a requirement that they provide the Federal Reserve with their loss, revenue and expense estimation models used for stress scenario analysis.

Under the Proposed Rules, a Covered Company would be required to be capable of providing the Federal Reserve its loss, revenue and expense estimation models used by the Covered Company for stress scenario analysis, including supporting documentation regarding each model's development and validation status.[17] The NPR notes that this information is to facilitate cross-firm comparisons of Covered Companies' models and their approaches to model validation. The Clearing House generally supports transparency and this type of comparative analysis. Nonetheless, Covered Companies may face certain legal or physical impediments in sharing their models with the Federal Reserve, such as licensing agreements and other confidentiality arrangements with vendors retained for model development or if the model is located on a vendor's electronic server and, thus, not under the physical control of the bank. Therefore, we urge the Federal Reserve in the final rules to recognize that such impediments exist and build in flexibility for a Covered Company to meet this proposed requirement in a manner consistent with its contractual and other obligations vis-à-vis third parties.

VII. The Federal Reserve should reconsider incorporating advanced approaches capital requirements in CCAR for Covered Companies subject to those requirements.

Under the Proposed Rules, beginning with the capital plan and stress test cycle starting January 1, 2016, a Covered Company that has been notified that it has exited a successful parallel run would be required to use Basel III advanced approaches to estimate regulatory capital for purposes of preparing and submitting its capital plan if it receives notice of this requirement from the Federal Reserve before the first day of the capital plan or stress test cycle in which it is required to use the advanced approaches method.[18]

We respectfully submit that the Federal Reserve should not require advanced approaches Covered Companies that have been notified they have exited their parallel run to use advanced approaches when estimating their minimum risk-based regulatory capital requirements for CCAR. Rather, they should be required to use only the revised regulatory capital rules' general or "standardized approach" to calculating risk weighted exposures. Incorporating the advanced internal ratings-based

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17 *Id.* at 37428.

18 *Id.* at 37430-37431.

approach into CCAR introduces significant additional complexity and uncertainty in CCAR projections, effectively requiring multiple layers of "models-on-models" (for example, the Federal Reserve's supervisory models applied to CCAR Covered Companies' advanced approaches models). Federal Reserve Governor Tarullo has acknowledged the complexity of the internal ratings based approach of the advanced approaches model, remarking that "[t]he combined complexity and opacity of risk weights generated by each banking organization for purposes of [the advanced approaches] create manifold risks of . . . mistake . . and monitoring difficulty".[19] Adding additional stress factors to advanced approaches models that already incorporate items such as wrong way risk, financial institution correlation, and extreme tail risks could produce results that cannot be properly calibrated and may therefore be inappropriate in this context. This, in our view, outweighs the benefits of using advanced approaches in CCAR in light of the floor provided by the standardized approach as mandated by the Collins Amendment.

VIII. The Agencies should amend the definition of "planning horizon" to reduce the period from nine to eight quarters.

The Proposed Rules retain the nine-quarter planning horizon over which relevant projections extend for capital planning and stress testing purposes, although, as discussed in Part above, they would shift the planning horizon forward by approximately three months. As such, under the Proposed Rules, the upcoming capital plan and stress test cycle beginning October 1, 2014 would incorporate a planning horizon of October 1, 2014 through December 31, 2016. The proposed modified capital plan and annual stress test cycle beginning January 1, 2016 would incorporate a planning horizon of January 1, 2016 through March 31, 2018.[20] The Proposed Rules also retain the requirement that a Covered Company's capital plan must reflect the revised Basel III capital framework that the Federal Reserve adopted, including the framework's minimum regulatory capital ratios and transitional arrangements, as applicable for each quarter of the planning horizon.

The proposed timeline shift to the capital plan and stress test cycles from October 1 to January 1 in the Proposed Rules, if adopted, would allow the Federal Reserve to obtain two full years of projections in capital plans and stress test results with only eight quarterly projections. We submit that projections for the ninth quarter of the planning horizon are unlikely to provide additional meaningful information for purposes of capital planning and stress testing given the incremental uncertainty inherent in modeling projections as one goes further out into the future. Reducing the planning horizon to only eight quarters also would increase the ability of banks to take advantage of the Basel III phase-in period.

Accordingly, The Clearing House requests that the Federal Reserve amend the definition of the planning horizon in the final rules to reduce the period from nine consecutive quarters to eight

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19 *See* Governor Daniel K. Tarullo, *Rethinking the Aims of Prudential Regulation*, remarks at the Federal Reserve Bank of Chicago Bank Structure Conference (May 8, 2014) (noting further that the advanced approach "contributes little to market understanding of large banks' balance sheets, and thus fails to strengthen market discipline").

20 *See id*. at 37431; 37435; 37439; 37441.

consecutive quarters. We urge the OCC and FDIC to take similar action with respect to the definition of the planning horizon for the annual company run stress tests in their respective final rules.

IX. Aside from the proposed timeline shift discussed in Part I, other aspects of the Proposed Rules, if included in the final rules, should not apply until at least the capital plan and stress test cycle beginning (under the proposed modifications in the Proposed Rules) on January 1, 2016.

As discussed above in Part I, The Clearing House supports the proposed timeline modifications to the capital plan and stress test cycles, deadlines and planning horizon, and we urge the Federal Reserve to adopt these timing modifications for the upcoming cycle. For other aspects of the Proposed Rules, however, to the extent they are included in the final rules (in either proposed or modified format), Covered Companies need sufficient time to integrate the changes into CCAR and stress testing processes with the appropriate level of control and governance. This is particularly the case for any final requirements for the BHC stress scenario and quarterly distribution management. Indeed, if the final rules are not published until October 2014, it would be extremely challenging for Covered Companies to modify their scenario design (which, as noted above, typically begins in early October) and assess the impact of quarterly dividend management for the 2015 capital planning and stress testing cycle. Sufficient time also will enable more automation across processes given sufficient time to develop, test and implement the enhancements. Therefore, we respectfully request that the Federal Reserve delay their applicability until at least the capital plan and stress test cycle proposed to begin on January 1, 2016.

X. Given that the U.S. Basel III-based capital rules will be effective for all Covered Companies on January 1, 2015, the Federal Reserve should expeditiously adopt an interim final rule that would eliminate the requirement that a Covered Company continue to estimate its T1C Ratio for purposes of the upcoming capital plan and stress test cycle

The Proposed Rules do not modify the requirement that a Covered Company include in its capital plan an estimate of its T1C Ratio (calculated under the formerly-applicable Basel I-based generally applicable risk-based capital rules[21]) under baseline conditions and stressed scenarios over the planning horizon and a discussion of how the Covered Company will maintain a *pro forma* T1C Ratio of 5% under stressed conditions.[22] The Proposed Rules also maintain the requirement in the Stress Test Rules that a Covered Company report, among other matters, its T1C Ratio (calculated in the same manner as for the Capital Plan Rule – that is, under Basel I) under baseline and stressed conditions. The revised Basel III-based capital framework that the Federal Reserve adopted, however, introduced a new CET1 measure and related ratio of CET1 to risk weighted assets (the "**CET1 Ratio**"), as well as a new "standardized approach" for calculating risk weighted assets. The Basel III rules were phased in for advance approaches Covered Companies beginning in 2014 and will become effective for all other Covered Companies beginning in 2015.

21 *See* 12 C.F.R. Part 225, Appendix A.

22 *See* 12 C.F.R. § 225.8(d).

As a result, for capital planning and stress test purposes, since the 2013-2014 cycle, advanced approaches Covered Companies have been calculating, and beginning with the upcoming cycle, other Covered Companies will begin calculating, both (1) their T1C Ratio using the Basel methodology over the entire planning horizon *and* (2) their regulatory capital minimum ratios – including Tier 1 capital, total capital, Tier 1 leverage and the new CET1 – as applicable under the Basel III capital rules as they come into effect for each quarter of the planning horizon.

The T1C Ratio is a regulatory capital ratio that has been used for supervisory purposes before and after the financial crisis, including CCAR, but it is not a minimum capital requirement. Beginning will the adoption of the Basel III regulatory capital minimum requirements for all Covered Companies in 2015, the T1C will cease to be a regulatory capital ratio for any purposes but capital planning and stress tests. Accordingly, the Clearing House urges the Federal Reserve to expeditiously adopt an immediately effective interim final rule that would eliminate the requirement that a Covered Company calculate the T1C Ratio and demonstrate in its capital plan that it will maintain a 5% T1C Ratio under stressed conditions. Covered Companies should instead be required to calculate only their applicable *pro forma* capital requirements for the upcoming and subsequent capital planning cycles pursuant to the final U.S. Basel III-based capital rules and their applicable regulatory capital minimum requirements.[23]

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If you have any questions or need further information, please contact me at 212.613.9883 (email: david.wagner@theclearinghouse.org) or Brett Waxman at 212.612.9211 (email: brett.waxman@theclearinghouse.org).

Respectfully submitted,

David Wagner
Executive Managing Director and Head of Finance Affairs
The Clearing House Association L.L.C.

cc: The Honorable Daniel K. Tarullo
Board of Governors of the Federal Reserve System

23 If the Federal Reserve does not apply the proposed timeline modifications to the upcoming capital plan and stress test cycles beginning October 1, 2014 under the Proposed Rules as we advocate in Part I, *supra,* we urge the Federal Reserve to require Covered Companies to continue calculating the T1C Ratio and meet the 5% T1C Ratio requirement only for the first quarter of that cycle (that is, the fourth quarter of 2014).

The Honorable Thomas J. Curry
Office of the Comptroller of the Currency

The Honorable Martin J. Gruenberg
Federal Deposit Insurance Corporation

The Honorable Mary Miller
Department of the Treasury

The Honorable Sarah Bloom Raskin
Department of the Treasury

Michael Gibson
Board of Governors of the Federal Reserve System

Mark E. Van Der Weide
Board of Governors of the Federal Reserve System

Arthur W. Lindo
Board of Governors of the Federal Reserve System

Timothy Clark
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Anna Lee Hewko
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Connie Horsley
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Robert Scavotto
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Ryan Sheller
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