**Royal Bank of Canada**
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*By electronic submission to regs.comments@federalreserve.gov*

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Comment Letter on the Notice of Proposed Rulemaking for Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations; and for Regulatory Capital Deduction for Investments in Certain Unsecured Debt of Systemically Important U.S. Bank Holding Companies. Docket No. R-1523; RIN 7100 AE-37

Ladies and Gentlemen:

Royal Bank of Canada ("RBC") appreciates the opportunity to comment on the provisions of the above-referenced Notice of Proposed Rulemaking (the "Proposed Rule") issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve") that would impose internal total loss-absorbing capacity ("TLAC"), long-term debt ("LTD") and "clean holding company" requirements on the intermediate holding companies ("covered IHCs") of non-U.S. global systemically important banks ("foreign G-SIBs").

As a general matter, we support the efforts of the Federal Reserve and authorities outside of the United States to promote financial stability in the United States and in other jurisdictions by, among other measures, enhancing the resiliency and resolvability of systemically important financial institutions. Further, we wish to express our support for the comment letters submitted by the Institute of International Bankers and by, collectively, SIFMA, The Clearing House, the American Bankers Association, the Financial Services Roundtable, and the Financial Services Forum regarding the application of the Proposed Rule to covered IHCs. These letters reflect RBC's views of the Proposed Rule where applicable to RBC's business operations.

Our purpose in submitting a separate comment letter is to discuss the "foreign parent" requirement of the Proposed Rule.[1] Specifically, the Proposed Rule would require that Tier 1 capital securities and eligible debt securities, in order to qualify as internal TLAC and LTD of a covered IHC, be issued to a non-U.S. ("foreign") parent entity of the covered IHC. The Federal Reserve provides two policy justifications for this proposed provision: (1) to "ensure that losses incurred by the U.S. intermediate holding company of a foreign GSIB would be upstreamed to a foreign parent rather than being

[1] Although, by its terms, the Proposed Rule does not apply to RBC at this time, RBC is writing in anticipation that the Proposed Rule, once finalized, could at a future date apply to RBC, including its IHC.

transferred to other U.S. entities . . . [thereby minimizing] the risk that such losses pose to the financial stability of the United States"[2]; and (2) to "prevent the conversion of eligible internal TLAC into equity from effecting a change in control over the covered IHC. A change in control could create additional and undesirable regulatory and management complexity during a failure scenario and would severely disrupt an SPOE resolution strategy."[3]

RBC supports these policy objectives. We respectfully submit, however, that each of these important goals can be met in a less restrictive manner, including by permitting Tier 1 capital securities and eligible debt securities to be issued to any foreign affiliate of a covered IHC where that affiliate is controlled by the foreign parent entity of the covered IHC ("foreign affiliate").

With respect to the Federal Reserve's first rationale for the foreign parent requirement in the Proposed Rule – i.e., to upstream any losses to the foreign parent in order to minimize risk to U.S. financial stability – we believe that this rationale would be as well-served by allowing internal TLAC and LTD to be issued or transferred to a foreign affiliate as to a foreign parent. TLAC's usefulness as a tool to promote the financial stability of the U.S. stems from features that allow a debt obligation to be converted into equity or written down completely. The ultimate objective -- namely, pushing losses off the covered IHC's balance sheet -- is met regardless of whether a foreign affiliate or a foreign parent holds the internal TLAC and LTD. Whether internal TLAC and LTD are issued to a foreign affiliate or to a foreign parent, losses would be effectively transferred outside the U.S. and those losses would be no more likely to be transferred to U.S. entities under either scenario.

With respect to the Federal Reserve's second rationale for the foreign parent requirement – i.e., to prevent or mitigate a change in control of the covered IHC in order to facilitate an SPOE resolution -- any risk of a change in control over the covered IHC will be limited where a foreign affiliate invests in the internal TLAC or LTD. Generally, any change in control issues would be recognized during resolution planning, in advance of an actual resolution. To the extent that such planning demonstrates that internal TLAC or LTD issued to a foreign affiliate would result in a change in control upon conversion of the LTD, hence complicating an SPOE resolution, TLAC or LTD could be transferred to a foreign parent or another foreign affiliate in advance of a resolution.

Further, we note that the prospect of a similar change in control event involving U.S. firms does not seem to raise any specific concerns under the Proposed Rule as it relates to U.S. G-SIBs, despite the possibility that the resolution of a U.S. G-SIB's BHC ("covered BHC") may be more complex than the resolution of resolution entity covered IHCs, which are not themselves G-SIBs. In this regard, the foreign parent requirement, if finalized, would be more restrictive than the TLAC and LTD requirements of covered BHCs, without any evident policy basis for that disparity.

Nonetheless, should the Federal Reserve remain concerned about change in control risks regarding non-U.S. banks, a covered IHC could issue internal LTD with contractual features that result in permanent write-down of the internal LTD rather than conversion to equity. This condition would eliminate the change in control concern.

There are several sound public policy and business reasons why a foreign G-SIB may wish to have a covered IHC issue equity or LTD to a foreign affiliate rather than to a foreign parent. These include having more suitable pools of capital and liquidity in foreign affiliates within the foreign G-SIB group. The foreign parent requirement of the Proposed Rule, then, could significantly limit the ability of a foreign G-SIB to manage its capital and liquidity effectively, without having a materially beneficial impact on either the resolvability of a covered IHC or on U.S. financial stability.

Accordingly, we respectfully request that any final rule based on the Proposed Rule permit a covered IHC to issue or transfer internal TLAC and LTD to a foreign affiliate as well as to a foreign parent. This modification would provide

[2] 80 Fed. Reg. at 74941.
[3] 80 Fed. Reg. at 74941-42.

foreign G-SIBs with the ability to manage their capital and liquidity more efficiently while serving the Federal Reserve's important objectives of promoting financial stability and the resiliency and resolvability of covered IHCs.

Thank you for your consideration of these views. If you have any questions regarding the foregoing, please do not hesitate to contact the undersigned.

Sincerely,

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