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Via e-mail: [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov), [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov) and [comments@fdic.gov](mailto:comments@fdic.gov)

Office of the Comptroller of the Currency  
400 7th Street, SW, Suite 3E-218  
Washington, DC 20219  
Attention: Legislative and Regulatory Activities Division  
Docket ID OCC-2019-0009; RIN 1557-AE63

Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551  
Attention: Ann E. Misback, Secretary  
Docket No. R-1658; RIN 7100-AF45; and  
Docket No. R-1628B; RIN 7100-AF21

Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429  
Attention: Robert E. Feldman, Executive Secretary  
RIN 3064-AE96

**Re: Proposed Revisions to the Enhanced Prudential Standards (EPS) for Foreign Banking Organizations (FBOs) and Proposed Changes to Thresholds Applicable to Regulatory Capital and Liquidity Requirements**

Ladies and Gentlemen,

Barclays US LLC (BUSLLC), on behalf of itself and its ultimate parent company, Barclays PLC (BPLC) and its subsidiaries (collectively, Barclays), appreciates the opportunity to comment on the following notices of proposed rulemakings (collectively, the FBO proposals): (1) the proposal issued by the Federal Reserve Board (the Board) to revise the enhanced prudential standards for large FBOs (EPS proposal)<sup>1</sup>; and (2) the proposal issued by the Board, Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC) (together the Agencies), to modify the application of capital and liquidity requirements to the United States (U.S.) operations of FBOs.<sup>2</sup> Barclays is submitting a separate letter commenting on the Board and FDIC's proposal to tailor resolution planning requirements.<sup>3</sup>

During the comment period, Barclays reviewed the FBO proposals in coordination with the American Bankers Association, the Bank Policy Institute, the European Banking Federation, the International

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<sup>1</sup> Prudential Standards for Large Foreign Banking Organizations; Revisions to Proposed Prudential Standards for Large Domestic Bank Holding Companies and Savings and Loan Holding Companies 84 Fed. Reg. 21,988 (May 15, 2019).

<sup>2</sup> Changes to Applicability Thresholds for Regulatory Capital Requirements for Certain U.S. Subsidiaries of Foreign Banking Organizations and Application of Liquidity Requirements to Foreign Banking Organizations, Certain U.S. Depository Institution Holding Companies, and Certain Depository Institution Subsidiaries 84 Fed. Reg. 24,296 (May 24, 2019).

<sup>3</sup> Resolution Plans Required, 84 Fed. Reg. 21,600 (May 14, 2019).

Banking Federation, the Institute of International Bankers and the Securities Industry and Financial Markets Association. We generally support the recommendations included in their letters with the additional clarifications made herein.

### Executive Summary

Barclays acknowledges the importance of the Agencies' post-financial crisis reforms in strengthening the capital, liquidity, risk management and other prudential standards for banking organizations, including the U.S. operations of FBOs.<sup>4</sup> Barclays also supports the recent efforts of the Agencies to more appropriately tailor these standards based on the size and complexity of an institution, consistent with the changes made by section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA).<sup>5</sup>

The FBO proposals make progress toward taking into account each institution's U.S. geographic footprint, operations and activities by defining "tailoring categories". The FBO proposals designate FBOs in Categories II, III and IV, while the U.S. global systemically important banks (GSIBs) have been designated as Category I. This designation reflects the Agencies' recognition that the U.S. operations of many FBOs, including Barclays, have a limited systemic risk profile and have increased their capital and liquidity levels, thereby reducing the risk they pose to U.S. financial stability. While this framework represents a step forward, the proposals could be improved to establish a more prudent, data-driven and consistent framework for applying regulatory requirements and supervisory standards to the activities of all covered financial institutions, including FBOs.

Specifically, final rulemaking provides an opportunity to improve the risk measurements used to assign FBOs to the "tailoring categories". Additionally, tailored requirements should reflect meaningful differences between the categories, while ensuring consistency of requirements applicable to institutions within each of the categories. In this regard, it is critical that intermediate holding company (IHC) requirements defined within this framework protect the stability of the U.S. financial system while promoting a competitive environment within the U.S. The important role foreign banks in the U.S. play is well recognized, including the competitive and countercyclical benefits foreign banks bring to the U.S. financial system.<sup>6,7,8</sup>

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<sup>4</sup> The enhanced prudential standards implemented by the Board include capital planning requirements; supervisory and company-run stress testing; liquidity risk management, stress testing, and buffer requirements; risk management and risk committee requirements; and single-counterparty credit limits. See 12 CFR 225.8, 12 CFR part 252. In addition, the Board and FDIC implemented resolution-planning requirements (12 CFR part 243), and the Board, OCC and FDIC adopted a revised regulatory capital rule and standardized liquidity requirement (the liquidity coverage ratio (LCR) rule) and proposed a stable funding requirement (the net stable funding ratio (NSFR) proposed rule). See 12 CFR part 217; 12 CFR part 249; Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements; 81 FR 35,124 (June 1, 2016).

<sup>5</sup> Public Law 115-174, 132 Stat. 1296 (2018). In 2018, the Agencies issued similar proposals (domestic proposals) for U.S.-headquartered bank holding companies (BHCs) (referred to herein as U.S. BHCs or U.S. banking organizations). See 83 Fed. Reg. 61,408 (Nov. 29, 2018); 83 Fed. Reg. 66,024 (December 21, 2018).

<sup>6</sup> U.S. Department of the Treasury, A Financial System that Creates Economic Opportunities Banks and Credit Unions (June 2017), <https://www.treasury.gov/press-center/press-releases/documents/a%20financial%20system.pdf> ("The U.S. operations of foreign banking organizations have total assets that exceed \$4.5 trillion, which includes the assets of commercial banks, branches, agencies, and non-bank affiliates, representing approximately 20% of our banking system. This segment plays a large role in providing business loans and infrastructure finance. They also provide significant capital markets services, comprising more than half of the 23 primary dealers of the Federal Reserve Bank of New York").

<sup>7</sup> Vice Chairman for Supervision Randal K. Quarles, The Federal Reserve's Regulatory Agenda for Foreign Banking Organizations: What Lies Ahead for Enhanced Prudential Standards and the Volcker Rule," Institute of International Bankers Annual Washington Conference, Washington, D.C. (March 5, 2018), <https://www.federalreserve.gov/newsevents/speech/quarles20180305a.htm> ("Non-U.S. firms serve as an important source of credit to U.S. households and businesses and contribute materially to the strength and liquidity of U.S. financial markets, so it is critical--not just as a matter of fairness but as a matter of our domestic interest--that we as regulators ensure that they operate in a fair and open financial services sector.").

<sup>8</sup> Opening Statement on Proposals to Modify Enhanced Prudential Standards for Foreign Banks and to Modify Resolution Plan Requirements for Domestic and Foreign Banks by Vice Chair for Supervision Randal K. Quarles (April 8, 2019) <https://www.federalreserve.gov/newsevents/pressreleases/99A5C407E998418CB2CB9DDB885C54B0B.htm> ("The contributions of foreign banks domestically, to both lending markets as well as capital markets, are significant to the U.S. economy and should continue.").

Barclays' comments and recommendations regarding the FBO proposals are based on the following key principles:

- I. **Requirements applicable to the IHCs should be based on the size and risk of the IHC and not the combined U.S. operations (CUSO), which includes both the IHC and U.S. branches.**
  - An IHC should be regulated and supervised based on the scale and scope of activities conducted within the IHC. IHC requirements should be comparable to similarly situated U.S. bank holding company (BHC) requirements and applied consistently with the principles of national treatment, competitive equality and recognition of comparable home country standards.
  - U.S. branches of FBOs should continue to be regulated and supervised as extensions of foreign banks through existing, effective post-crisis regulatory and supervisory tools. The Agencies should acknowledge and leverage the strong home country and U.S. regulation and supervision that is in place to address any concerns related to the branches.
- II. **Risk-based indicators (RBIs) should be calibrated to identify substantive risks, defined such that risk is measured consistently across both U.S. BHCs and IHCs and calibrated consistently with existing capital and liquidity regimes.**
  - Intercompany transactions should be excluded from RBIs, as they are for U.S. BHCs, for all covered companies.
  - RBIs should not include activities that do not contribute to material capital or liquidity requirements, as recognized under existing regulations (e.g., LCR). Specifically, Level 1 high-quality liquid assets (HQLA) and transactions collateralized by Level 1 HQLA should not be included in the calculation of RBIs. Institutions should not be penalized for holding high quality assets.
- III. **Requirements should be consistently applied to institutions within each category and the final rule should include meaningful differences in the level of requirements between categories. Quantitative impact studies should inform the specific tailoring of requirements across categories.**
  - Category II and III institutions, which have a lower systemic risk profile in the U.S.<sup>9</sup>, should not be held to the same requirements and supervision of the Category I institutions (i.e., U.S. GSIBs).
  - Institutions within the same category should be held to the same regulatory and supervisory requirements.

Based on these key principles, we encourage policymakers to carefully consider and further tailor requirements to address several key U.S. rules, including: Net Stable Funding Ratio (NSFR), total loss absorbing capacity (TLAC), stress testing and capital plan rules and resolution planning.

- Barclays recommends the Agencies address the public comments on the NSFR proposal<sup>10</sup> and appropriately calibrate the final rule based on quantitative impact studies as well as consideration of harmonization with other global NSFR requirements (e.g., the NSFR requirement proposed by the European Commission).<sup>11</sup>
- Several other enhanced prudential requirements should be reconsidered in light of the unique structure of the U.S. operations of FBOs, including the stress capital buffer (SCB) proposal, TLAC requirements, and resolution planning requirements.
- Barclays recommends tailoring be expanded to supervisory standards, including the Large Institution Supervision Coordinating Committee (LISCC) designation through which the intensive horizontal Comprehensive Capital Analysis and Review (CCAR), Supervisory Assessment of

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<sup>9</sup> Resolution Plan Board Memo, From Board Staff to Board or Governors; April 1, 2019.

<sup>10</sup> Barclays submitted a comment letter on this proposal on August 5, 2016. See [https://www.federalreserve.gov/SECRS/2016/August/20160829/R-1537/R-1537\\_080516\\_130417\\_401448637236\\_1.pdf](https://www.federalreserve.gov/SECRS/2016/August/20160829/R-1537/R-1537_080516_130417_401448637236_1.pdf).

<sup>11</sup> European Commission's banking package: revised rules on capital requirements (Capital Requirements Directive V/ Capital Requirements Regulation II [CRD V/CRR II]).

Recovery and Resolution Preparedness (SRP) and Comprehensive Liquidity Assessment and Review (CLAR) examinations are conducted.

### Barclays Overview

Barclays operates in the U.S. through its IHC, BUSLLC, and branches of Barclays Bank PLC (BBPLC) in New York and Miami. BUSLLC holds substantially all of Barclays U.S. subsidiaries, including Barclays Capital Inc. (BCI), a broker-dealer registered with the Securities and Exchange Commission (SEC) and a futures commission merchant registered with the Commodity Futures Trading Commission (CFTC), and Barclays Bank Delaware (BBDE), an FDIC-insured depository institution.

Barclays has a simple business model and corporate structure in the U.S. that in part were driven by changes in response to the implementation of Regulation YY.<sup>12</sup> As of March 31, 2019, Barclays' CUSO, which includes its U.S. branches, held \$214 billion in assets of which the consolidated IHC represented approximately \$156 billion. U.S. branch total assets were approximately \$58 billion, of which \$38 billion consisted of cash on deposit at the Federal Reserve and other depository institutions. BCI and BBDE represented over 90% of the U.S. IHC's assets. Barclays' U.S. activities pose minimal systemic risk. BCI's assets are comprised primarily of U.S. dollar-denominated securities associated with trading and financing activities (e.g., liquid money market and government and agency securities), listed options, futures on options and forwards (the majority of which are to-be-announced (TBA) contracts). BBDE's activities primarily include high quality credit card portfolios and retail deposits.

Post-crisis regulations provide a level of protection to the U.S. financial system from extrajurisdictional risk for FBOs. IHC operations have been compartmentalized such that: (i) risks are comprehensively monitored within the IHC; (ii) adequate risk-based capital and liquidity are held locally within the IHC based on the IHC's specific exposures and capital and liquidity stress testing; and (iii) capital may only be distributed from IHCs through closely supervised and governed mechanisms, including the CCAR framework.

For branches, the imposition of asset maintenance ratio (AMR) and capital equivalency deposit (CED) requirements along with enhanced local risk management and reporting requirements ensure that branches of foreign banks maintain local assets greater than third-party liabilities at all times, including under stress. The U.S. branches are also subject to branch liquidity stress-testing. In addition, U.S. resolution planning requirements have been established which ensure that Barclays' U.S. operations could be resolved without adversely impacting the stability of the U.S. financial system.

At the global level, the consolidated operations of BPLC, including the IHC and U.S. branches, are regulated and supervised by the Prudential Regulatory Authority on a consolidated basis and are subject to the full slate of internationally-agreed Basel Committee On Banking Supervision (BCBS) and Financial Stability Board (FSB) standards including: building loss absorbing capacity (Minimum Requirement for own funds and Eligible Liabilities (MREL)/TLAC); the GSIB buffer (1.5%)<sup>13</sup>; liquidity coverage ratio (LCR); an NSFR; a supplementary leverage ratio (SLR); a countercyclical capital buffer (CCyB); and the large exposures framework. BPLC and BBPLC are also subject to the "solo capital" regime in the United Kingdom. Any U.S. requirements for Barclays' U.S. operations are in addition to the GSIB requirements already applied on a consolidated basis by Barclays' home country authorities.

Barclays recommends tailoring U.S. requirements for FBOs to consider the abovementioned global and U.S. frameworks currently in place. This treatment would be consistent with FSB recommendations to strengthen the financial system and limit market fragmentation, which can be driven by "differences in national regulations and supervisory practices governing financial activities that are international in nature" that may "reduce the resilience of both global and domestic financial systems" and "limits opportunities for cross-border diversification and risk management, impairs market liquidity or prevents capital and liquidity from being channeled to where it needs to be in resolution."<sup>14</sup>

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<sup>12</sup> Regulation YY 12 CFR pt 252.

<sup>13</sup> Required in excess of the level required by Basel III standards.

<sup>14</sup> FSB Report on Market Fragmentation. June 4, 2019. <https://www.fsb.org/2019/06/fsb-report-on-market-fragmentation-2/>.

## Recommendations

- I. **Requirements applicable to the IHCs should be based on the size and risk of the IHC and not the combined U.S. operations (CUSO), which includes both the IHC and U.S. branches.**

### Requirements of the IHC should be based on the IHC

The FBO proposals apply disparate measures for determining requirements applicable to the IHC. In some instances, the CUSO size and risk profile is used to determine requirements applicable only to the IHC, while in other instances the IHC risk profile is applied. The CUSO size and risk profile is used to determine the applicable category of non-capital requirements (i.e., liquidity standards (including the LCR and NSFR) and single-counterparty credit limits (SCCL)), while the IHC size and risk profile is used to determine IHC capital standards.

The IHC should not be required to hold additional resources, particularly liquidity resources, based on the activities conducted through U.S. branches of the foreign parent, which would be the effective result of using CUSO thresholds. Requirements should be assessed and applied to the individual entity or branch based on the specific business activities and risk profile, as they can be substantially different. It is important to note that IHC and branch funding and liquidity are not fungible and there are existing legal restrictions that limit activity between the branch(es) and the IHC (e.g., section 23A of the Federal Reserve Act).

The FBO proposals inherently impact FBOs differently based on the proportion of activity in the IHC versus the U.S. branches. Consider two FBOs with essentially the same CUSO total assets and RBIs, but a different proportion of activity within the IHC versus the U.S. branches. All else held equal, the FBO with a higher proportion of assets and/or risk in the branches would result in the IHC being subject to more stringent requirements, even though the size and risk of the IHC may not warrant such level of requirements. Applying requirements to an IHC that are inappropriate to its size and risk profile could create significant financial, regulatory and operational burdens without a corresponding supervisory benefit, or could create inconsistency in the level of regulatory treatment relative to its IHC peers of similar size and risk. While this may not be the intended result of the Agencies, this creates a potential incentive for institutions to migrate activities out of the U.S.

Tailoring IHC requirements to IHC risk would be consistent with Dodd-Frank Act statutory principles of national treatment and equality of competitive opportunity and serve to level the playing field between IHCs and comparable BHCs operating in the U.S. jurisdiction. Barclays' IHC itself is a ring-fenced entity, with, among other requirements in the U.S., capital, liquidity, stress testing, and TLAC requirements on par with U.S. GSIBs. As domestically-headquartered BHCs would not be subject to additional measures of risk, it would be inconsistent with these key statutory principles to subject IHCs to heightened requirements based on the CUSO size and risk profile.

IHCs should be supervised and regulated based on the scale and scope of activities conducted within the IHC's consolidated operations and comparable to the requirements applicable to a similarly situated U.S. headquartered top-tier BHC. Due to increases in capital and liquidity requirements as a result of the implementation of Regulation YY, U.S. IHC balance sheets have contracted. Additional increases in capital and liquidity requirements for U.S. IHCs will drive lower returns for the U.S. IHCs relative to equivalently sized U.S. BHCs. Additional increases in requirements could further suppress capital investments in the U.S.

### U.S. branches are legally distinct

U.S. branches of FBOs are extensions of the foreign bank's legal entity without separate legal status in the U.S. In contrast, IHCs are legal entities that are incorporated in the U.S., maintain capital and liquidity positions, and consolidate subsidiaries based on U.S. accounting and control rules.

While branches and IHCs share the same foreign parent, they do not share direct lines of legal entity ownership nor can they be consolidated for financial reporting purposes under U.S. Generally Accepted Accounting Principles (U.S. GAAP). As discussed above, existing regulations restrict an IHC's capital and funding from being used to support a branch.

Branches should continue to be supervised and regulated as extensions of foreign banks with acknowledgment of the limited separability of branch-level capital and liquidity from the foreign bank entity and consideration of their consolidated supervision by home country authorities.<sup>15</sup> FBOs' U.S. branch networks, like their global activities, are subject to robust consolidated home-country regulation and supervision that is comparable to the regulations applied to U.S. BHCs and consistent with BCBS and FSB standards.

The current U.S. regulatory and supervisory framework in place for branches, including significant post-crisis enhancements, provides transparency to the Federal Reserve on branch business activities, risk management, financial positions and governance. In addition to consolidated regulation and supervision by home country authorities, U.S. branches of FBOs are generally subject to a broad set of U.S. requirements including regulatory reporting of financial information, direct examination and supervisory ratings by the Federal Reserve and state authorities, stand-alone liquidity stress testing, disclosure of home-country branch-level capital stress testing results, U.S.-based risk management, state and federal AMR requirements that can be increased with agency discretion during times of stress or uncertainty and U.S. resolution planning requirements including descriptions of financial and operational interconnections with affiliates. In addition, the Board assesses the adequacy of home country supervision of international banks upon their application to establish certain banking operations in the U.S.

It therefore would be inconsistent with corporate law, accounting standards, and historical regulatory practices to apply regulatory requirements to one corporate structure (i.e., the IHC) on the basis of an artificial combination of two legally distinct corporate structures (i.e., a "combination" of the IHC and U.S. branches), as has been proffered in the FBO proposals.

**II. Risk-based indicators (RBIs) should be calibrated to identify substantive risks, defined such that risk is measured consistently across both U.S. BHCs and IHCs and calibrated consistently with existing capital and liquidity regimes.**

**Measure risk consistently across U.S. BHCs and FBOs**

Barclays strongly supports the approach in the FBO proposals to implement an RBI methodology. However, modifications to the proposed methodology are required to more appropriately and consistently capture the nature of the risk related to FBOs. RBIs should be designed and calibrated to take into account that cross-jurisdictional activity of FBOs is predominantly low risk activity, which generally represents funding from the foreign banking organization to its U.S. operations and, in the case of certain long-term debt instruments, are required by regulation.<sup>16</sup>

Barclays recommends that inter-affiliate transactions be excluded from all RBIs. While the Agencies have removed certain inter-affiliate transactions from the cross-jurisdictional activity (CJA) indicator, Barclays specifically recommends that all inter-affiliate transactions be removed from the CJA indicator as well as from the weighted short-term wholesale funding (wSTWF) indicator. Such an adjustment would better reflect that these RBIs are applied at a different level of aggregation for FBOs (i.e., the subsidiary level) than for U.S. BHCs, which aggregate transactions at the top-tier consolidated level, allowing for the elimination of all inter-affiliate exposure. A more useful and comparable measure of risk for U.S. operations of FBOs would identify risk that solely arises from transactions with third parties.

The FBO proposals indicate that cross-jurisdictional activity would be measured excluding cross-jurisdictional liabilities to non-U.S. affiliates and cross-jurisdictional claims on non-U.S. affiliates to the extent that these claims are secured by financial collateral, which recognizes that inter-affiliate activities do not increase risk nor external interconnectedness. The Agencies gave several reasons for this exclusion which

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<sup>15</sup> The Federal Reserve has previously acknowledged that the branch network of FBOs should be largely excluded from enhanced prudential standards requirements because branches are subject to home country capital and stress testing requirements. See 79 FR 17240 (March 21, 2014).

<sup>16</sup> 84 Fed. Reg. 21,995.

apply equally well as a basis to exclude all inter-affiliate transactions from all the RBIs more broadly, including:

- The proposed exclusion recognizes the benefit of FBOs providing support to their U.S. operations: "Intercompany liabilities generally represent funding from the foreign banking organizations to their U.S. operations and, in the case of certain long-term debt instruments, may be required by regulation."<sup>17</sup>
- "Foreign banking organizations' U.S. operations often intermediate transactions between U.S. clients and foreign markets, including by facilitating access for foreign clients to U.S. markets, and clearing and settling U.S. dollar-denominated transactions."<sup>18</sup>
- The U.S. operations of FBOs "engage in transactions to manage enterprise-wide risks. In these roles, they engage in substantial and regular intercompany transactions."<sup>19</sup>

As the Agencies correctly explain, U.S. operations of FBOs routinely execute intercompany transactions between U.S. and non-U.S. affiliates. For Barclays, like many institutions (both U.S. BHCs and FBOs), such transactions include secured and unsecured borrowing, securities lending and borrowing transactions, payment of dividends, liquidity management and payments to service companies for operational support, technology, facilities management and other shared services. In the normal course of business, these internal transactions are generally low-risk and routine. In addition, secured funding from affiliates is "stickier" than funding from non-affiliated third parties. Affiliates are unlikely to refuse to rollover or withdraw funding from U.S. affiliates given that such an action could threaten the stability of the entire organization.

The Agencies also suggest, as an alternative to the FBO proposals' limited exclusion for cross-jurisdictional activity claims backed by financial collateral, that the Agencies exclude all transactions with non-U.S. affiliates from the calculation of cross-jurisdictional activity. The Agencies noted that this alternative would focus only on third-party assets and liabilities and "may be a less burdensome way to account for the structural differences between foreign banking organizations' operations in the U.S. and large domestic holding companies."<sup>20</sup> Barclays agrees with this approach to focus on third-party assets and liabilities for RBIs, which would align the requirements and level the playing field for the U.S. operations of FBOs and U.S. BHCs.

Under the current approach, the FBO proposals create disparate outcomes for U.S. BHCs and FBOs since inter-affiliate transactions of U.S. BHCs are netted out in consolidation in both the CJA and wSTWF RBIs whereas inter-affiliate transactions would be captured for IHCs. Additionally, it is important to note that the RBIs will be reported publicly on the FR Y-15, and the public could be misled if reported metrics are not measured on a comparable basis for U.S. BHCs and IHCs. Exclusion of inter-affiliate exposures would create parity with U.S. BHCs who report transactions only with third parties (and not with their non-U.S. affiliates). This adjustment would thus be consistent with Dodd-Frank Act principles of national treatment and equality of competitive opportunity.

#### [Measure risk consistently across risk-based indicators \(RBIs\) and requirements](#)

Barclays recommends that the Agencies measure risk in its RBIs in a manner consistent with how it captures risk in other risk-based requirements (e.g., the LCR rule). In particular, RBIs should be calibrated to reflect underlying asset liquidity and the Agencies should consider removing Level 1 HQLA and transactions collateralized by Level 1 HQLA from all RBIs, in particular the wSTWF RBI.

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<sup>17</sup> Prudential Standards for Large Foreign Banking Organizations; Revisions to Proposed Prudential Standards for Large Domestic Bank Holding Companies and Savings and Loan Holding Companies 84 Fed. Reg. 21,988 (May 15, 2019).

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

The Agencies' stated purpose in the FBO proposals is to modify existing standards applicable to FBOs "in a manner commensurate with the risks such organizations pose to U.S. financial stability".<sup>21</sup> Barclays recommends the Agencies should support this objective by recognizing the minimal risk presented by Level 1 HQLA and transactions collateralized by Level 1 HQLA (e.g., repurchase agreements or repo backed by Level 1 HQLA) and excluding these assets and liabilities from all RBIs. Level 1 HQLA are the highest-quality and most liquid assets, which can be included in an institution's HQLA amount without limit and without haircuts under the LCR rule. Level 1 HQLA include securities which are issued by or unconditionally guaranteed by the U.S. Treasury and in general have exhibited high levels of liquidity even in times of extreme stress to the financial system. RBIs should also recognize that these securities experience the most flight to quality in stress.<sup>22</sup>

This change would also more generally support the key systemic role of primary dealers and market makers, like Barclays, which are required to maintain a large balance of U.S. Treasury securities to support the Federal Reserve's implementation of monetary policy.

#### [Modifications to FR Y-15 reporting](#)

Consistent with the industry comment letters, Barclays recommends limiting the FR Y-15 data reporting requirement to CUSO data only where it directly contributes to the calculation of the RBIs. The limited data requirement would include information necessary to calculate the RBIs that are used to assign FBOs to different categories under the tailoring framework.

Barclays recommends that, at minimum, a 12-month phase-in period be established for proposed branch FR Y-15 reporting requirements, and that the first two quarterly FR Y-15 filings be prepared on a "best efforts basis". This approach will provide additional time to address any new requirements and / or modifications to existing capabilities (e.g., technology) and is consistent with the approach the Board has previously taken to implement changes to the FR Y-15. Barclays also suggests the Agencies re-evaluate current FFIEC 019 and FFIEC 009 reporting alongside any new FR Y-15 requirements to streamline data collection and minimize duplication.

### **III. Requirements should be consistently applied to institutions within each category and the final rule should include meaningful differences in the level of requirements between categories. Quantitative impact studies should inform the specific tailoring of requirements across categories.**

U.S. GSIBs have been identified as Category I, which is the category that includes the institutions that present the most systemic risk to the U.S. financial system, while the FBOs (along with non-GSIB U.S. BHCs) have been identified as Categories II, III and IV. However, the regulatory requirements outlined in the FBO proposals for Categories II and III FBOs are substantially the same as those that have been proposed for Category I institutions. Barclays recommends that the comprehensive set of requirements, supervisory expectations and reporting requirements currently applicable to FBOs are reconsidered and aligned to the new categorization, consistently applied to institutions within each category and are informed by quantitative impact studies where appropriate.

#### [Establish meaningful differences in requirements between categories to reflect differences in risk profile](#)

The FBO proposals would continue to subject Category II and III FBOs to substantially the same level of requirements as the U.S. GSIBs (Category I) despite the Agencies' recognition of their lesser degree of systemic risk. In multiple cases, these requirements would add an additional layer or duplication of requirements as FBOs, like Barclays, are already subject to the same or similar requirements by home

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<sup>21</sup> See 84 Fed. Reg. 21,990. The proposed RBIs capture activities and assets that are low-risk and, in some circumstances, that are required by regulation.

<sup>22</sup> See 12 CFR 249.20(a); see also 79 Fed. Reg. 61,440 (Oct. 10, 2014).



authorities that apply to all global operations (including the U.S.). U.S. FBO requirements that remain consistent with U.S. GSIBs include:

- **Liquidity requirements (including LCR and NSFR):** Category I and II institutions would be held to the same standardized liquidity requirements (100% full daily LCR and NSFR), daily liquidity reporting, firm-specific stress tests and risk management. Category III institutions are also subject to the same requirements with the following distinctions: (1) a reduced 70-85% daily LCR and NSFR and (2) monthly (vs. daily) liquidity reporting. These proposals do not take into account that FBOs, like Barclays, are subject to 100% LCR and will be subject to NSFR on a global consolidated basis. Based on size and risk profile, Barclays' IHC is on par with U.S. BHCs eligible for modified LCR and NSFR requirements.
- **Internal TLAC:** The FBO proposals did not clarify how internal TLAC requirements would be realigned to the proposed categorization. Under the domestic proposals, the only institutions that are subject to TLAC are Category I institutions (i.e., the U.S. GSIBs). Under prevailing requirements, Barclays remains subject to TLAC at 90 percent, the top end of the FSB range (75%-90%). Category I institutions are not required to hold a mandated level of TLAC at a subsidiary level, which furthers the disparity between U.S. BHCs and FBOs, which are subject to total loss-absorbing capital requirements in both home and host jurisdictions. Prepositioning of TLAC also limits parent flexibility to deploy resources as needed.
- **Risk-based and leverage capital:** Category I, II and III institutions all remain subject to the most material capital requirements. The only distinctions are that Category I institutions are held to a GSIB surcharge and enhanced SLR, while Category II, III and IV institutions would not. However, these two capital requirements typically represent a much smaller capital constraint relative to stress testing, which forms a binding constraint for institutions subject to this requirement. Moreover, the GSIB surcharge, where applicable, is already applied to FBOs on a global consolidated basis.
- **Capital planning and IHC stress testing:** Category I, II and III institutions all remain subject to an annual CCAR process, company-run stress testing, supervisory stress testing and capital plan submission. The only proposed distinction in requirements, a movement to a two-year cycle for Category III company-run stress testing, would result in immaterial differences in requirements, as it only reduces the burden of public disclosure while the requirement for annual stress test submissions remain.

#### [Establish consistency in requirements and supervision for institutions within each category](#)

As tailoring categories are used to determine peer groups, it is important that requirements and supervisory expectations are standardized and consistently applied to institutions within each category. Under prevailing supervisory requirements, certain institutions within Category II and III are subject to more stringent capital requirements relative to their peers within the same category. The FBO proposals present an opportunity for the Agencies to create consistency in requirements for institutions of the same size and risk profile and should create a level playing field for Category II and III institutions, aligning with the principle of equality of competitive opportunity. Barclays recommends the Agencies consider alignment of the following requirements and expectations:

- **Global Market Shock (GMS) and Largest Counterparty Default (LCD):** Barclays, along with four other FBOs,<sup>23</sup> are currently subject to the GMS and LCD stress testing requirements. In particular, the GMS inflates an institution's stress capital buffer requirements and becomes a binding capital constraint for institutions. However, the GMS does not apply to the trading assets and counterparty exposures of all institutions in Category II and III, nor does it take into account the disproportionate impact it has on the smaller and less complex trading activities of the five IHCs relative to the Category I U.S. GSIBs, the only U.S. BHCs subject to the requirement. Notably, the application of this requirement to Barclays, which has IHC trading assets approximately one-tenth the amount of U.S. GSIBs and are comprised of 75 percent

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<sup>23</sup> FBOs that currently conduct the GMS and LCD include Barclays, Credit Suisse, Deutsche Bank, HSBC and UBS.

U.S. Treasuries and Agencies,<sup>24</sup> results in disproportionate overall capital requirements relative to similarly-situated IHCs and U.S. BHCs with similar trading portfolios.

- **Supervisory expectations:** Barclays, along with three other FBOs, remains subject to the Board's most stringent supervisory category, the LISCC portfolio. The only other institutions within this portfolio are the U.S. GSIBs, Category I institutions per the domestic proposals. LISCC institutions are subject to enhanced supervision and certain more stringent requirements than other institutions, including horizontal liquidity reviews and other supervisory expectations.

Barclays recommends these concerns are taken into consideration when the GMS scoping is finalized through the SCB rulemaking and also recommends that scoping criteria is also proposed for the LCD component. More broadly, it is critical that rationalization and cohesion be extended for supervision based on these new categories.

#### Use of Quantitative Impact Studies

Barclays recommends that the Agencies consider the use of quantitative impact studies to inform categorization and minimize disparate impacts on FBOs, inform appropriateness of the requirements and, if applicable, the methodology and approach to implement. Barclays recommends that these studies include capital (e.g., CCAR and changes to SCB) and liquidity requirements (e.g., NSFR). Any final rulemaking should reflect meaningful differences in requirements between each category based on the outcomes of these studies.

An impact analysis would serve to inform the calibration of the SCB for IHCs that considers the unique structure of FBOs with respect to particular features of CCAR and the SCB proposal (e.g., dividend add-on and GMS). The SCB proposal did not rely on an impact analysis for FBOs, even though the GMS would determine the IHC's binding capital constraint.

Of particular note, an impact analysis on the NSFR is critical for IHCs of FBOs. The analysis should account for consideration that the NSFR would be applied at a different level of aggregation for U.S. BHCs and IHCs where U.S. BHCs are the top-tier/parent which allows for netting across the organization versus IHCs are at a subsidiary level which only nets the sub-set applicable to U.S. operations. To date, an impact assessment was conducted for U.S. BHCs and it is unclear that any study was conducted for IHCs. Given that the NSFR is a requirement that was designed for consolidated organizations, it is critical to assess the disparate effects the rule may have when applied to only a subset of the consolidated company (i.e., the IHC). Such assessment should inform the application of the NSFR to IHCs and, if necessary, the appropriate calibration of requirements. Ultimately a modified LCR and NSFR, calibrated based on impact studies and aligned to the risk profile of the IHC, would represent a better balance of pre-positioning of liquidity in the U.S. and flexibility to deploy liquidity resources where needed in times of stress. Significantly, U.S. NSFR requirements should align with approaches being contemplated globally, in particular, the NSFR requirements proposed by the European Commission.

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<sup>24</sup> Barclays' IHC is subject to GMS by virtue of the fact that its aggregate trading assets and liabilities are equal to 10 percent or more of total consolidated assets.

## Conclusion

Barclays appreciates the opportunity to comment on the FBO proposals and believes they are a good step toward focusing regulatory requirements on the institutions that pose systemic risk to the U.S. financial system. Barclays believes that the FBO proposals could be improved to better align requirements to FBO risk profiles, based on recommendations in this letter. We appreciate the Agencies' attention to this letter and look forward to discussing these matters in greater detail.

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We would be pleased to provide further information or assistance to the Agencies. Please contact us if we can provide any additional information.

Sincerely,



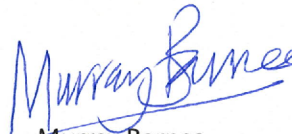
Richard Haworth  
US Chief Executive Officer



Matthew Larson  
US Chief Financial Officer



Joseph Noto  
US Treasurer



Murray Barnes  
US Chief Risk Officer

CC:

Francesca Turquet, Head of Regulatory Relations, Americas  
Brendan Reilly, Head of U.S. Government Relations & Regulatory Policy