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November 20, 2020

Via Electronic Delivery

Ms. Anne E. Misback
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Comment Letter on the Notice of Proposed Rulemaking Regarding Amendments to Capital Planning Requirements for Large Bank Holding Companies, Intermediate Holding Companies and Savings and Loan Holding Companies (Docket No. R–1724 and RIN 7100-AF95)

Ladies and Gentlemen:

The Charles Schwab Corporation ("**Schwab**")[1] welcomes the opportunity to comment on the notice of proposed rulemaking ("**NPR**") of the Board of Governors of the Federal Reserve System ("**Federal Reserve**") seeking comment on amendments to capital planning and stress testing requirements for large bank holding companies ("**BHCs**"), intermediate holding companies ("**IHCs**") and covered savings and loan holding companies ("**SLHCs**").[2]

Schwab appreciates the Federal Reserve soliciting public comment before proposing any substantive rule text that could subject large covered SLHCs[3] to the Federal Reserve's capital plan

[1] The Charles Schwab Corporation (NYSE: SCHW) is a leading provider of financial services, with 28 million active brokerage accounts, 2.1 million corporate retirement plan participants, 1.5 million banking accounts, and approximately $6.0 trillion in client assets as of September 30, 2020. Through its operating subsidiaries, Schwab provides a full range of wealth management, securities brokerage, banking, asset management, custody and financial advisory services to individual investors and independent investment advisors. As explained below, the relative low-risk profile of Schwab's business are reflected in its asset composition, liabilities composition and other metrics.

[2] *See* Federal Reserve, Amendments to Capital Planning and Stress Testing Requirements for Large Bank Holding Companies, Intermediate Holding Companies and Savings and Loan Holding Companies, 85 Fed. Reg. 63222 (Oct. 7, 2020).

[3] For purposes of the NPR and the Federal Reserve's existing supervisory and company-run stress test requirements, a "covered SLHC" is defined as a top-tier SLHC that, among other requirements, (1) derives a majority of its total consolidated assets or total revenues on an enterprise-wide basis from activities that are financial in nature, (2) is not an insurance underwriting company and (3) holds less than 25 percent of its total consolidated assets in subsidiaries that are insurance underwriting companies (other than assets associated with insurance for credit risk). *See* 85 Fed. Reg. at 63226 n.13; 12 C.F.R. § 217.2. Although the NPR does not define what it means by a "large" covered SLHC, presumably the Federal Reserve is using the same terminology for covered SLHCs as for BHCs in the NPR and would thus treat as "large" a covered SLHC in Category IV or above. *See* 85 Fed. Reg. at 63224 (describing change in terminology from "large and noncomplex bank holding company" to "Category IV bank holding company"). In

rule, including its stress capital buffer ("**SCB**") requirements.[4] To assist the Federal Reserve in considering any such rule, Schwab encourages the Federal Reserve to take into account the following four considerations.

First, large covered SLHCs that meet certain criteria—defined in Part I.A of this letter as "**eligible covered SLHCs**," which would include Schwab—should be able to opt out of being subject to the Federal Reserve's capital plan rule. The NPR specifically asks whether such an opt-out regime would be appropriate,[5] and Schwab would strongly support the Federal Reserve adopting a rule allowing eligible covered SLHCs to opt out of these requirements at their choice.

Second, in the event that eligible covered SLHCs are made subject to the capital plan rule, the requirements that apply to these firms should be appropriately tailored commensurate with their size, business model, risk profile (including asset composition and risk-weighted assets ("**RWAs**")), funding sources, trading assets and scope of operations and activities. Such tailoring would be appropriate because eligible covered SLHCs in many respects have a substantially lower risk profile than large BHCs in Category III or even many in Category IV under the Federal Reserve's final rule tailoring prudential standards for large BHCs, covered SLHCs and foreign banking organizations based on four risk-based categories ("**Final Tailoring Rule**").[6] For example, although Schwab is currently a Category III firm under the Final Tailoring Rule because of its asset size—$250 billion in total consolidated assets or more—and because it will shortly have over $75 billion in average weighted short-term wholesale funding—the bulk of which consists of retail affiliated sweep deposits, which as discussed in Part I.A below have proven to be a source of funding stability in stress—in many respects Schwab is much less subject to credit, market and liquidity risk than other Category III firms and most Category IV firms.

Third, for Schwab and any future eligible covered SLHC, these tailored requirements should include: (i) not being subject to the largest counterparty default ("**LCD**") scenario;[7] (ii) being required to file those schedules of the FR Y-14A that are relevant to the eligible covered SLHC's business model, composition of assets and liabilities, and scope of operations only on a streamlined basis and being required to provide supporting documentation for Appendix A only upon the Federal

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addition, and as described further in Part I below, it is clear from the NPR that Schwab is currently the only large covered SLHC. *See id.* at 63229 (describing the NPR's revisions to the FR LL report submitted by SLHCs, noting that the estimated number of respondents is one).

[4] *See* 12 C.F.R. § 225.8. The NPR states that the Federal Reserve is "considering whether to apply the capital planning and stress capital buffer requirements to large covered [SLHCs] that currently apply to large [BHCs]" and solicits input on a number of questions without putting forth a specific proposal with respect to large covered SLHCs in this NPR. 85 Fed. Reg. at 63226.

[5] In Question 11, the NPR asks, "What other approaches to applying capital planning requirements to large covered [SLHCs] should the [Federal Reserve] consider and why? For example, what would be the advantages and disadvantages of allowing large covered savings and loan holding companies to opt-in to being required to comply with the capital planning and [SCB] requirements that currently apply to large [BHCs]?" 85 Fed. Reg. at 63226 (emphasis added).

[6] *See* Federal Reserve, Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations, 84 Fed. Reg. 59032 (Nov. 1, 2019); *see also* Office of the Comptroller of the Currency, Federal Reserve, Federal Deposit Insurance Corporation, Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements, 84 Fed. Reg. 59230 (Nov. 1, 2019).

[7] Schwab would not be subject to the global market shock ("**GMS**") scenario because, as discussed in Part II.A below, its trading assets are well below the GMS thresholds.

Reserve's request; and (iii) for the avoidance of doubt, not being subject to a qualitative objection to a capital plan.

Fourth, all large covered SLHCs—but especially eligible covered SLHCs—should be provided with an adequate transition period and accordingly not be required to comply with the capital plan rule until at least 2024.[8] To further ensure an appropriate transition, the first capital plan submission should be reviewed by the Federal Reserve on a confidential basis, without counting toward a large covered SLHC's SCB or as part of the Federal Reserve's Large Financial Institution ("**LFI**") rating for capital planning and positions for that firm.

The remainder of this comment letter expands on each of these recommendations in turn.

Eligible covered SLHCs should be able to opt out of being subject to the Federal Reserve's capital plan rule.

We understand that any final rule would apply generally to any large covered SLHC; however, we note that Schwab is currently the only large covered SLHC, as the Federal Reserve specifically recognizes.[9] The NPR's contemplated extension of capital planning and SCB requirements to large covered SLHCs would therefore uniquely apply only to Schwab at this time, although other firms could be in scope if they were to become large covered SLHCs in the future. Schwab's unique position is important to recognize for purposes of any final capital planning and SCB requirements.

Eligible Covered SLHCs

Although Schwab is a Category III firm under the Federal Reserve's Final Tailoring Rule, Schwab is much less subject to credit, market or liquidity risk than other Category III firms and even many Category IV firms because of the relatively low risk-weighting of its assets, its lack of any Commercial and Industrial ("**C&I**") lending, its very low level of trading assets and its retail-oriented business model and reliance primarily on retail funding, among other things. Because of these features, we believe that it would be appropriate for Schwab and similar large covered SLHCs meeting the criteria to be an eligible covered SLHC—outlined below—not to be subject to the same capital planning requirements as other Category III BHCs and SLHCs.

In particular, we believe that SLHCs that qualify as eligible covered SLHCs should have the right to opt out of being subject to the Federal Reserve's capital plan rule. The NPR contemplates the possibility of such an opt-out regime, specifically asking for comment in this regard.[10] Schwab encourages the Federal Reserve to include an opt-out regime for eligible covered SLHCs in any final rule applying capital planning and SCB requirements to large covered SLHCs. For eligible covered SLHCs, as explained in more detail below, these requirements would impose additional burdens on

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[8] Question 12 of the NPR specifically solicits comment regarding the appropriate transition period approach for applying capital planning requirements to large covered SLHCs. *See* 85 Fed. Reg. at 63226.

[9] *See id.* at 63229 (describing the NPR's revisions to the FR LL report submitted by SLHCs, noting that the estimated number of respondents is one).

[10] As noted earlier in this comment letter, Question 11 of the NPR asks, "What other approaches to applying capital planning requirements to large covered [SLHCs] should the [Federal Reserve] consider and why? For example, what would be the advantages and disadvantages of allowing large covered savings and loan holding companies to opt-in to being required to comply with the capital planning and [SCB] requirements that currently apply to large [BHCs]?" 85 Fed. Reg. at 63226 (emphasis added).

such firms without any substantive benefits that could not be obtained under the current capital and stress testing regime applicable to large covered SLHCs or by applying supervisory guidance related to capital planning such as SR 15-19.[11]

Schwab believes that it is much less subject to credit or market risk than other Category III firms because it has, as of September 30, 2020:

- a ratio of RWAs to total consolidated assets of 26.1%—meaning that, under the Federal Reserve's capital rules, the substantial majority of Schwab's assets qualify for the lowest risk weights (0% and 20%);
- an exemption from the market risk capital rules in 12 C.F.R. pt. 217 subpt. F, granted by the Federal Reserve on July 2, 2015, resulting from a very low level of trading assets of approximately $14.0 billion, or only $783 million after excluding U.S. Treasury securities in Schwab's segregated Securities and Exchange Commission Rule 15c3-3[12] portfolio;[13]
- a *de minimis* ratio of C&I loans to total loans of 3.0%;[14] and
- a ratio of retail funding to total funding of 92.5%.
    - With respect to this metric, approximately 79.9% of Schwab's liabilities consist of affiliated retail sweep deposits balances from brokerage customer funds. A recent draft study finds that such deposits are actually stable sources of funding for banks during periods of high stress.[15]

Schwab therefore recommends that the Federal Reserve define an "eligible covered SLHC" in such a way as to include Schwab and any large covered SLHC with metrics similar to those of

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[11] Federal Reserve, SR 15-19, Federal Reserve Supervisory Assessment of Capital Planning and Positions for Large and Noncomplex Firms (Dec. 18, 2015).
[12] 17 C.F.R. § 240.15c3-3.
[13] Letter from Margaret McCloskey Shanks, Deputy Secretary, Federal Reserve, to Peter J. Morgan III, Senior Vice President and General Counsel, Schwab (July 2, 2015).
[14] Schwab's completion of its acquisition of TD Ameritrade Holding Corporation ("**TD Ameritrade**") in October 2020 does not affect any of the above metrics in any material respect. First, on a pro forma basis including TD Ameritrade, as of October 31, 2020, Schwab had a ratio of RWAs to total assets of 23.4%. Second, although pro forma data on the ratio of retail funding to total funding are not currently available, Schwab does not expect that the ratio would materially change. Third, Schwab continues to comply with the conditions of its exemption from the market risk capital rule. Finally, TD Ameritrade has no C&I loans. Although the amount of Schwab's total consolidated assets increased as a result of the transaction, the assets Schwab acquired were of the same comparably low risk as Schwab's assets prior to the acquisition, consisting primarily of fully collateralized margin loans and low-risk assets eligible for TD Ameritrade's reserve portfolio.
[15] *See* James. R. Barth, Mark Mitchell & Yanfei Sun, Runs to Banks: The Role of Cash Sweeps During Market Downturns 5 (Draft Sept. 9, 2020), *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3690525 ("Importantly, our results suggest there are notable differences between the impact of sweep deposits versus non-sweep brokered deposits on the overall volatility of bank deposits as a funding sources. Indeed, despite their high volatility, sweep deposits are not destabilizing, but instead stabilizing for banks as investors reduce risk by converting stock to cash during periods of high stress. Instead, it is only the non-sweep brokered deposits that appear to sometimes increase the volatility of total bank deposits. Moreover, sweep deposits from brokerage firms serve to enhance the hedging of liquidity risk by banks in providing loan commitments and lines of credit to corporations.").

Schwab. To that end, an eligible covered SLHC generally should be defined as a covered SLHC that, like Schwab:

- has a low ratio of RWAs to total assets;
- is not subject to or is exempt from the market risk capital rules in 12 C.F.R. pt. 217 subpt. F;
- has a low ratio of C&I loans to total loans; and
- has a high ratio of retail funding to total funding.

Rationale for Opt-Out Regime for Eligible Covered SLHCs

Based on the factors described above, Schwab believes eligible covered SLHCs are less subject to credit, market and liquidity risk than other Category III firms and even most Category IV firms. In particular, eligible covered SLHCs have overall lower credit risk exposures, more retail funding and more retail-focused business models than many firms subject to the Federal Reserve's capital plan rule. Because of these differences in business model and risk profile and in light of the capital and stress testing requirements to which any Category III firm is already subject, we believe that subjecting an eligible covered SLHC to the Federal Reserve's capital plan rule, including the SCB, is unnecessary and would be overly burdensome in relation to any incremental benefit not already provided by existing regulations or supervisory guidance.

Schwab believes that requiring an eligible covered SLHC to be subject to the Federal Reserve's capital plan rule—as opposed to giving such a firm the right to opt out of the requirement—would be overly burdensome because it would require such a firm to develop a formal internal structure and process for developing and submitting a capital plan meeting the requirements of Section 225.8 of Regulation Y on an annual basis, including the preparation of Form FR Y-14A and essentially all of its related schedules and Appendix A documentation. The supervisory benefit of imposing this burden on such a firm is, in our view, at best incremental and more likely unchanged compared to the requirements already applicable to a Category III firm, for three main reasons:

First, eligible covered SLHCs such as Schwab are already subject to supervisory and company-run Dodd-Frank Act Stress Testing ("**DFAST**").[16] Supervisory and company-run DFAST already measure the ability of a Category III firm to withstand stressed conditions—either based on the firm's own scenarios or the Federal Reserve's supervisory scenarios, as applicable—and to have sufficient capital to meet its post-stress minimum regulatory capital requirements and still provide credit and access to the capital markets to its clients in a stressed economic environment. A Category III firm subject to supervisory and company-run DFAST must in any event develop appropriate quantitative or qualitative loss estimation approaches and models and a related risk management framework, including governance and internal controls, in order to comply with its DFAST requirements. Layering on top of these requirements a set of formal requirements designed to govern a formal Comprehensive Capital Analysis and Review ("**CCAR**") capital plan that

[16] *See* 12 C.F.R. pt. 238, subpts. O, P.

includes a firm's specific planned capital actions as opposed to the assumed capital actions embedded in DFAST seems a disproportionate means of addressing the difference in capital actions.

Second, a Category III firm's SCB is already measured primarily by the largest peak-to-trough changes in Common Equity Tier 1 ("**CET1**") capital under supervisory DFAST, to which an eligible covered SLHC would already be subject. It is highly unlikely, given the lower risk profile of an eligible covered SLHC compared to other Category III firms and most Category IV firms, that an eligible covered SLHC's SCB would ever be higher than the 2.5% floor. As a result, there would be no incremental benefit to imposing the capital plan rule SCB requirement on an eligible covered SLHC in order to ensure that such a firm would have enough capital to cover its largest peak-to-trough change in CET1 under stressed conditions compared to the 2.5% Capital Conservation Buffer ("**CCB**") that applies to BHCs that are below $100 billion in total consolidated assets and thus are not subject to the Federal Reserve's capital plan rule or SCB requirement.[17] To the extent that the Federal Reserve believes it would be important to require an eligible covered SLHC to comply with the second component of a Category III firm's SCB, namely, the amount of a firm's planned four quarters of dividends on its common equity as a percentage of RWAs, it would be easy enough to require an eligible covered SLHC to provide the Federal Reserve with that information. We do not believe, however, that the mere absence of a four-quarter dividend add-on from the CCB is sufficient reason to require an eligible covered SLHC to prepare and submit a formal capital plan that complies with all of the requirements of Section 225.8 of Regulation Y.

Third, the Federal Reserve can assess the capital planning process employed by eligible covered SLHCs as part of its LFI rating system[18] and through the normal supervisory process, mitigating any need for a formal capital plan submission. Moreover, the Federal Reserve can also issue guidance for its assessment of capital planning and positions for an eligible covered SLHC, which could be in the form of: (i) enumerated portions of any new modified guidance applicable to Category III firms more generally (e.g., an updated version of SR 15-19), with only some portions—those that do not refer to the requirement to submit a formal capital plan and that are otherwise appropriately tailored to the business models and risk profiles of eligible covered SLHCs—applicable to such firms, or (ii) a tailored, stand-alone version of guidance (e.g., a modified version of an updated SR 15-19) that would apply only to eligible covered SLHCs and that would take into consideration the absence of a requirement to submit a formal capital plan.

In the event that all covered SLHCs are subject to the capital plan rule requirements, they should be tailored for eligible covered SLHCs.

Should the Federal Reserve decide not to provide an opt-out framework for eligible covered SLHCs, any final rule should be tailored for Schwab and any other firms that become similarly situated eligible covered SLHCs in the future. The NPR specifically contemplates the possibility of adjusting capital planning and SCB requirements for large covered SLHCs.[19] As discussed further

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[17] *See* 12 C.F.R. § 217.11(a)(4)(ii) (stating that an institution is not subject to a maximum payout amount if its CCB is greater than 2.5% plus 100% of any applicable countercyclical capital buffer amount).

[18] *See* Federal Reserve, Large Financial Institution Rating System; Regulations K and LL, 83 Fed. Reg. 58724, 58734–39 (Nov. 21, 2018); *see also* Federal Reserve, SR 19-3/CA 19-2: Large Financial Institution (LFI) Rating System (Feb. 26, 2019).

[19] Question 10 of the NPR asks, "If the Board were to apply capital planning and stress capital buffer requirements to large covered savings and loan holding, what adjustments, if any, should the Board make to those requirements as compared to the requirements that apply to large bank holding companies and why? For example, should the Board

below, Schwab believes these requirements should be tailored in a number of respects for eligible covered SLHCs, commensurate with their size, business model, risk profile (including asset composition and RWAs), funding sources, trading assets and scope of operations and activities.

First, eligible covered SLHCs should not be subject to the LCD scenario. Second, eligible covered SLHCs should be subject to reduced FR Y-14A reporting requirements. Finally, all large covered SLHCs—but especially eligible covered SLHCs—should not be subject to a qualitative objection to their capital plans. Each of these requirements is discussed below in turn.

A. No Largest Counterparty Default (LCD) Scenario

As part of imposing capital planning requirements on eligible covered SLHCs, the Federal Reserve should not impose the LCD scenario. Unlike other firms subject to the LCD—including custody banks and global systemically important banking organizations—Schwab's balance sheet is, and that of any other eligible covered SLHC would be, relatively low-risk. Consequently, subjecting eligible covered SLHCs to the LCD would be unnecessary and inappropriate.

As an initial matter, Schwab does not even come close to meeting the regulatory thresholds for applications of the GMS scenario,[20] as Schwab has aggregate trading assets and liabilities of approximately $14.0 billion as of September 30, 2020, which is approximately 3.3% of its total consolidated assets.[21] Although the standards for applying the LCD scenario and GMS scenario are not identical—for BHCs, the GMS scenario applies only to covered companies with significant trading exposure whereas the LCD scenario applies only to covered companies with substantial trading or processing and custodian operations[22]—many components of the GMS scenario are also covered by the LCD scenario.

Schwab's larger exposures tend to be concentrated in sovereigns, particularly U.S. sovereigns, for which it would be particularly inappropriate to impose an LCD analysis. Given the low credit risk of U.S. sovereigns—recognized in the Federal Reserve's capital rules—it would be

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consider any adjustments to the mandatory elements of the capital plan, the calculation of the stress capital buffer requirement, regulatory reporting requirements or any other aspect capital planning and stress capital buffer requirements in light of the risk profile of large covered savings and loan holding companies relative to large bank holding companies?" 85 Fed. Reg. at 63226 (emphasis added).

[20] *See* 12 C.F.R. § 238.143(b)(2)(i) ("The [Federal Reserve] may require a covered company with significant trading activity, as determined by the [Federal Reserve]and specified in the Capital Assessments and Stress Testing report (FR Y-14), to include a trading and counterparty component in its severely adverse scenario in the stress test required by this section."). Although there is no definition of "significant trading activity" for SLHCs in Regulation LL, "significant trading activity" is defined for BHCs in Regulation YY as having either (1) aggregate trading assets and liabilities of $50 billion or more, or (2) aggregate trading assets and liabilities equal to 10% or more of total consolidated assets, and not being a "large and noncomplex BHC" as currently defined in Regulation Y. *See* 12 C.F.R. § 252.54(b)(2)(i); *see also* Federal Reserve, 2020 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule, at 5 n.7 (explaining to which firms the GMS applies).

[21] The numbers reflect Schwab only and not also TD Ameritrade. The numbers would not be materially different if TD Ameritrade were included. As of October 31, 2020, Schwab had on a pro forma basis including TD Ameritrade total trading assets and liabilities of approximately $18.6 billion or approximately 3.7% of its total consolidated assets.

[22] *See* 12 C.F.R. pt. 252 Appx. B: Stress Testing Policy Statement, § 2.5(a); *see also* 12 C.F.R. § 252.54(b)(2)(i) (stating that the Federal Reserve may impose a "trading and counterparty component" on "a covered company with significant trading activity," where "significant trading activity" is generally defined as "[a]ggregate trading assets and liabilities of $50 billion or more, or aggregate trading assets and liabilities equal to 10 percent or more of total consolidated assets").

improper to assume their default, and subjecting Schwab to the costs of applying the scenario would have little practical benefit.

In addition, as discussed in Part I.A above, Schwab has, and we would expect any other eligible covered SLHCs to have, a significant focus on retail clients, who would tend to have smaller positions than wholesale clients. Because these retail counterparties tend to be smaller, a default by any individual counterparty is obviously much less likely to have a significant impact than the default of a BHC's larger wholesale counterparty. This would in any event make the LCD scenario less instructive for eligible covered SLHCs.

Because of the nature of Schwab's counterparties and Schwab's balance sheet—and those of any other future eligible covered SLHC—in our view there would likely not be any added value in imposing the LCD scenario, especially since the LCD scenario is ultimately based on the GMS scenario to which Schwab would not be subject in any event. We therefore recommend that the Federal Reserve not subject eligible covered SLHCs to the LCD scenario.

Reduced FR Y-14A Reporting

Eligible covered SLHCs should be required to file only those schedules of the FR Y-14A that are relevant to their business models, risk profiles and scope of operations and to file them on a streamlined basis. As discussed in Part I above, eligible covered SLHCs are in many respects subject to less credit, market and liquidity risk than most Category IV firms, which the Federal Reserve proposes to exempt from filing several FR Y-14A schedules.[23] The Federal Reserve should therefore also appropriately tailor FR Y-14A requirements to eligible covered SLHCs by requiring them to submit only relevant schedules and only on a streamlined basis.

In addition, we recommend that the Federal Reserve permit eligible covered SLHCs to report supporting documentation in Appendix A only upon request from the Federal Reserve. As the Federal Reserve acknowledges in the NPR, limiting FR Y-14 reporting requirements would still provide the Federal Reserve with the information necessary to run supervisory stress tests and to review the required elements of a firm's capital plan,[24] and if the Federal Reserve requires any additional documentation for its review, e.g., for company-run DFAST, it may simply request it.

No Qualitative Objection

In the event the Federal Reserve adopts a final rule subjecting large covered SLHCs to capital planning requirements, all such firms—but especially eligible covered SLHCs—should not be subject to a potential qualitative objection to their capital plans. As discussed in the NPR, the

[23] The NPR provides that Category IV firms would not be required to report FR Y-14A Schedule A—Summary, Schedule B—Scenario, Schedule F—Business Plan Changes or Appendix A—Supporting Documentation. 85 Fed. Reg. at 63224. Although Category IV firms are no longer subject to company-run DFAST requirements, they remain subject to biennial supervisory DFAST requirements and, as proposed to be modified by the NPR, the capital plan rule. We therefore believe that the Federal Reserve should also tailor FR Y-14A reporting requirements for Category III eligible covered SLHCs commensurate with their business models, risk profiles and scope of operations.

[24] 85 Fed. Reg. at 63224.

Federal Reserve has removed the qualitative objection for all firms and accordingly is proposing to remove references to the qualitative objection in the capital plan rule.[25]

The Federal Reserve should confirm, in any final rule applicable to large covered SLHCs, that no firm newly subject to the capital plan rule, especially eligible covered SLHCs, would be subject to a qualitative objection. A qualitative objection is unnecessary given that large covered SLHCs would in any event be subject to the LFI rating system, which assesses a firm's capital planning and position. When it initially adopted the rule phasing out the qualitative objection, in supporting the notion that the qualitative objection was no longer necessary the Federal Reserve specifically acknowledged that the "LFI rating system will give supervisors the opportunity to provide more regular, ongoing feedback to firms regarding their capital planning process."[26] The Federal Reserve can use the supervisory process to assess the quality of a large covered SLHC's capital plan without the need for a qualitative objection, just as it does now for any other large firm.

All large covered SLHCs should be provided an adequate transition period to comply with any final rule subjecting such firms to the Federal Reserve's capital plan rule.

In the event that any large covered SLHC becomes subject to the current or a tailored version of the Federal Reserve's capital plan rule, Schwab recommends that the Federal Reserve provide large covered SLHCs—but especially eligible covered SLHCs—with a transition period until the 2024 capital planning cycle at the earliest to comply with capital planning and SCB requirements.[27] In addition, the Federal Reserve's review of large covered SLHCs' first capital plan submissions should be conducted on a confidential basis, without having those submissions count toward those firms' SCB or as part of such a firm's capital planning and positions LFI rating. This transition period would allow large covered SLHCs to have a better understanding of supervisory expectations prior to becoming subject to public feedback. Such a transition period would also account for the time it would take for the Federal Reserve to propose and finalize specific provisions of a capital plan rule applicable to eligible covered SLHCs, for that rule to become effective and for eligible covered SLHCs to then finalize the necessary processes for compliance with such a final rule.

As discussed above in Parts I and II, the Federal Reserve already evaluates these firms' capital planning through the ordinary supervisory process and subjects them to supervisory and company-run stress testing. During the transition period for any capital planning rule applicable to large covered SLHCs, the Capital Planning and Positions component of the LFI rating system would give the Federal Reserve ample opportunity to evaluate large covered SLHCs' capital planning process unrelated to any requirement to submit a formal capital plan. As already noted above, large covered SLHCs are already subject to the Federal Reserve's DFAST requirements, and therefore

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[25] *See id.* at 63222 n.1; *see also* 12 C.F.R. § 225.8(i)(2) (providing that qualitative objection will generally no longer be available starting January 1, 2021).

[26] Federal Reserve, Amendments to the Capital Plan Rule, 84 Fed. Reg. 8953, 8955 (Mar. 13, 2019).

[27] Question 12 of the NPR asks, "Under the Board's capital plan rule for large bank holding companies, a firm that is subject to the capital plan rule and meets the asset threshold on or before September 30 of a calendar year must comply with the requirements of the rule beginning on January 1 of the next calendar year. Similarly, such a firm that meets the asset threshold after September 30 of a calendar year must comply with the requirements of the rule beginning on January 1 of the second calendar year after the firm meets the asset threshold. What elements of this approach to a transition period are appropriate for applying capital planning requirements to large covered savings and loan holding companies?" 85 Fed. Reg. at 63226 (emphasis added).

model risk management and loss estimation methodologies relevant to DFAST are already assessed as part of DFAST.

A transition period until at least 2024 for large covered SLHCs with feedback on the first capital plan provided confidentially would have three chief benefits. First, a start date of 2024, for example, would enable large covered SLHCs to take into account the results of their first supervisory DFAST in 2022, make adjustments in response to that feedback for the 2023 DFAST cycle and see how those adjustments affect their 2023 results before becoming subject to formal capital plan requirements. In particular, Schwab will first receive feedback on supervisory DFAST in 2022. Although Schwab has a strong understanding of its models from company-run stress testing, we would benefit from understanding the impact of supervisory models on our stress testing results so that, to the extent there are material differences, we can assess whether any differences are indicative of any necessary recalibration we need to make to our models. This transition timeline—allowing at least two supervisory DFAST cycles prior to being required to submit a formal capital plan—would be the minimum amount of time necessary for Schwab to receive supervisory feedback, make adjustments based on that feedback and understand, through the second supervisory DFAST, whether those adjustments were adequately responsive to supervisory feedback prior to becoming subject to capital planning.

Second, providing supervisory feedback on the first capital plan confidentially, without counting toward the Federal Reserve's capital plan and positions LFI rating, would similarly allow large covered SLHCs to benefit from confidential feedback by the Federal Reserve before becoming fully subject to a formal capital plan requirement. This would also provide the Federal Reserve the opportunity to most effectively communicate its expectations in response to initial capital plan filings.

Third, Schwab's proposed transition period would be consistent with the approach used by the Federal Reserve when first subjecting IHCs to capital planning requirements.[28] Like IHCs, large covered SLHCs should be provided with a transition period between the effective date of any final rule and the date of their first capital plan submission. In addition, certain IHCs did not participate in CCAR in 2017, the first year they were required to submit capital plans, but instead submitted capital plans subject to a confidential review process.[29] Large covered SLHCs should similarly have the opportunity to submit their first capital plans subject to a confidential review process.

Accordingly, we recommend that the Federal Reserve provide large covered SLHCs with a minimum transition period of at least until the 2024 capital planning cycle and provide feedback on such firms' initial capital plans on a confidential basis, without the initial submission being part of the Federal Reserve's capital plan and positions LFI rating of those firms.

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[28] *See* Federal Reserve, Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations, 79 Fed. Reg. 17240, 17282–83 (Mar. 27, 2014) (describing capital planning requirements and compliance date for IHCs).

[29] *See* Federal Reserve, Comprehensive Capital Analysis and Review 2017: Assessment Framework and Results at 1 n.6 (June 2017), *available at* https://www.federalreserve.gov/publications/files/2017-ccar-assessment-framework-results-20170628.pdf.

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Schwab would be pleased to engage in continued dialogue with the Federal Reserve regarding how eligible covered SLHCs should be defined, why eligible covered SLHCs should be able to opt out of capital planning requirements and, in the event eligible covered SLHCs are subjected to these requirements, how to appropriately tailor their applicability. If you have any questions, please do not hesitate to contact me at (415) 667-0958 or Peter.Morgan@schwab.com.

Very truly yours,

Peter J. Morgan III
Executive Vice President, General Counsel, and
Corporate Secretary