

**John F. Woods**  
Chief Financial Officer

One Citizens Plaza  
Providence, RI  
02903  
Telephone: (203)  
900-6700

[john.woods@citizensbank.com](mailto:john.woods@citizensbank.com)

November 20, 2020

Ms. Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street & Constitution Avenue, N.W.  
**Washington, D.C. 20551**

**Re: Notice of Proposed Rulemaking – Amendments to Capital Planning and Stress Testing Requirements for Large Bank Holding Companies, Intermediate Holding Companies and Savings and Loan Holding Companies**  
**(Docket No. R-1724; RIN 7100-AF95)**

To Whom It May Concern:

Citizens Financial Group, Inc. (“Citizens” or “CFG”) appreciates the opportunity to comment on the notice of proposed rulemaking (“proposal”, “NPR”) to update the requirements in the capital plan rule of the Board of Governors of the Federal Reserve System (the “FRB”), which applies to large bank holding companies and U.S. intermediate holding companies of foreign banking organizations.<sup>1</sup>

Citizens is one of the nation’s oldest and largest financial institutions, with \$179.2 billion in assets as of September 30, 2020. Headquartered in Providence, Rhode Island, Citizens offers a broad range of retail and commercial banking products and services to individuals, small businesses, middle-market companies, large corporations and institutions.

The proposal would update the FRB capital planning requirements in a number of respects, including integration of the capital plan rule with the FRB October 2019 final rules tailoring the

---

<sup>1</sup> See 85 Fed. Reg. 63,222 (Oct. 7, 2020).

enhanced prudential standards.<sup>2</sup> The proposal would also make conforming changes to the capital planning, regulatory reporting, and stress capital buffer requirements for firms subject to Category IV standards to be consistent with the tailoring framework (collectively, the “Category IV Changes”). It is these Category IV Changes that are of particular interest to Citizens as we would be directly subject to these Category IV Changes if the NPR is implemented.

Citizens supports the comments submitted by the Banking Policy Institute (“BPI”) on the proposal. However, it is submitting its own, separate comment letter to emphasize a select number of issues relating to the NPR that we believe are of elevated importance.

## EXECUTIVE SUMMARY

CFG recognizes the FRB efforts to establish a regulatory capital framework that more closely relates regulatory requirements to a firm’s underlying risk profile. Consistent with the FRB objective, the proposal would better align the tailoring framework to Category IV firms with the Category IV Changes.

Specifically, Citizens supports the proposal to allow a Category IV firm to elect to participate in the supervisory stress test (“opt-in”) in a year in which the firm would not generally be subject to the supervisory stress test. The flexibility to opt in would provide these firms with an opportunity to receive an updated stress capital buffer (“SCB”) requirement that includes an updated stress loss component based on the firm’s latest balance sheet and risk profile. Citizens recommends that firms have until March 15 to provide a written notice to the FRB for the 2021 and any subsequent stress test cycles. This timeline would allow firms more time to satisfy relevant internal governance requirements while also providing the FRB with sufficient notice in advance of the April 5th submission. Citizens also agrees with the FRB proposal for an opt-in firm to be considered a full participant in the supervisory stress test. Applying consistent standards, including public disclosure of supervisory stress test results and the updated SCB requirement to Category IV firms, regardless of an opt-in or mandatory participation in the supervisory stress test, supports the integrity and transparency of the FRB’s regulatory framework.

The following section provides additional detail on Citizens’ comments related to the proposal.

## COMMENTS ON THE PROPOSED CHANGES CONTAINED IN THE PROPOSAL

### **1. Option to participate in the supervisory stress test in an off-cycle year**

Citizens supports the FRB proposal to allow Category IV firms to elect to participate in the supervisory stress test in a year in which the firm would not normally undergo a supervisory stress test.

Category IV firms are currently subject to supervisory stress testing every other year. The FRB would calculate and adjust the stress loss component of a Category IV firm’s SCB in the year in

---

<sup>2</sup> Federal Reserve Board, Prudential Standards for Large Bank Holding Companies and Savings and Loan Holding Companies , 84 Fed. Reg. 59,032 (Nov. 1, 2019), <https://www.govinfo.gov/content/pkg/FR-2019-11-01/pdf/2019-23662.pdf>; Office of the Comptroller of the Currency, Federal Reserve Board, and the Federal Deposit Insurance Corporation, Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements , 84 Fed. Reg. 59,230 (Nov. 1, 2019), <https://www.govinfo.gov/content/pkg/FR-2019-11-01/pdf/2019-23800.pdf>.

which the firm undergoes the supervisory stress test. The SCB requirement would take effect on October 1 of the same year and remain in effect for two years. During an off-cycle year, a Category IV firm would receive a stress capital buffer requirement from the FRB that reflects the firm's updated planned common stock dividends but stress losses would be based on supervisory results from the previous year.

The proposal would provide Category IV firms with flexibility to participate in the supervisory stress test in an off-cycle year in order to receive an updated stress capital buffer requirement, including the stress loss component based on the firms' most recent balance sheet and risk profile. An annual refresh of the Stress Capital Buffer requirement will ensure that the firm's most recent balance sheet, business conditions and risk profile under prevailing financial market and macroeconomic conditions are appropriately reflected in the stress loss component of the stress capital buffer. The updated SCB would capture the impact of any changes to the firm's strategic plans, business profile and balance sheet mix, as well as any systemic and idiosyncratic risks faced by the firm.

Further, any changes to stress results as a result of FRB modelling enhancements will be reflected in the SCB if the Category IV firm opts to participate in an off-cycle year. The FRB's modelling changes under DFAST are typically phased in over a two year period, and an annual update would capture these changes more frequently. For example, the FRB made changes to the PPNR model in 2020, which will be fully phased in during the 2021 DFAST cycle. If a Category IV firm does not opt into the 2021 cycle, the PPNR modeling changes will not be fully reflected in the firm's results until the 2022 DFAST cycle. By opting into the stress test in an off-cycle year, the firm will ensure that its capital requirements are more closely aligned with its risk profile, which would support more meaningful and effective day-to-day capital management and planning.

## **2. Consistency of standards**

Category IV firms are currently subject to public disclosure of results by the FRB in connection with the biennial supervisory stress test. The FRB is required to publish a summary of the supervisory stress test results by June 30. Under the proposal, Category IV firms that opt in to participate in the supervisory stress test in an off-cycle year would be considered full participants in that year's stress test. These firms would receive an updated SCB requirement and be subject to public disclosure of supervisory stress test results.

Citizens supports the FRB proposal to consider any Category IV firms opting in to the supervisory stress test during an off-cycle year as full participants in that year's supervisory stress test. Citizens believes that applying consistent standards, including public disclosures, to firms regardless of an opt-in or mandated participation in the stress test, supports integrity and transparency of the FRB regulatory framework. A uniform approach to public disclosure also promotes market discipline.

## **3. Deadline for notice of participation**

Category IV firms would have until December 31 of the year preceding the year in which they seek to opt in to the supervisory stress test to provide a written notice to the FRB. For purposes of calculating the stress capital buffer requirement in 2021, the proposal includes transitional procedures that would delay the deadline for Category IV firms to notify the FRB of the election to participate in the 2021 supervisory stress test until February 15, 2021.

The proposal seeks comment on whether February 15, 2021 is the appropriate deadline for a Category IV firm to notify the Federal Reserve of its intention to participate in the 2021 supervisory stress test. It further solicits comment on the advantages and disadvantages of including April 5, 2021, the date on which these firms must submit their capital plans to the Federal Reserve, as the deadline for notification to participate in the 2021 supervisory stress test.

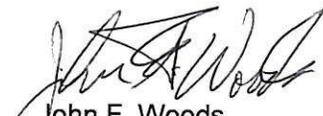
Citizens believes that the proposed timelines for Category IV firms to make the election to opt in and notify the FRB do not provide these firms with sufficient time to make a well-informed decision. Citizens urges the FRB to consider a longer timeline and recommends that firms have at least until March 15<sup>th</sup> to notify the FRB of their election to opt-in for both the 2021 and subsequent stress test cycles. Citizens views a longer timeline as necessary in order for firms to adequately assess potential implications associated with the decision to opt-in. Given the critical role the SCB plays in determining capital requirements and facilitating day-to-day capital management and planning, the longer timeline would provide firms more time for their decision to be vetted through internal governance processes while also providing the FRB with sufficient notice in advance of the April 5<sup>th</sup> submission deadline.

## CONCLUSION

Citizens appreciates the opportunity to comment on the proposal and respectfully asks the FRB to consider recommendations presented in this letter. In summary, Citizens strongly supports the FRB proposal to allow Category IV firms to opt in to a supervisory stress test in the year in which the firm would not normally be subject to the supervisory stress test. Citizens also supports the FRB proposal to treat a participating Category IV firm as a full participant in that year's supervisory stress test, including disclosure of the firm's supervisory stress test results. Citizens does request that the deadline for deciding to opt in to the stress test be pushed out to March 15<sup>th</sup> for 2021 and subsequent years as this would balance the firms' need to satisfy internal governance requirements while providing the FRB ample notice period in advance of the April 5<sup>th</sup> submission date.

Thank you for considering our comments. If you have any questions, please feel free to contact me ([John.Woods@citizensbank.com](mailto:John.Woods@citizensbank.com); 203-900-6700).

Yours truly,



John F. Woods  
Chief Financial Officer