The Credit Roundtable

THE VOICE OF THE BUYSIDE

November 8, 2023

James P. Sheesley, Assistant Executive Secretary
Attention: Comments/Legal OES (RIN 3064–AF90)
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429.

Re: FDIC's Request for Comment on Regional Bank Long Term Debt

Dear Sir or Madam,

We write on behalf of The Credit Roundtable[1] which is a group of investment managers serving institutional and retail clients with a shared objective to improve fixed income market conditions for bondholders through education and advocacy**.** We believe that enhancing bondholder protections benefits issuers, underwriters, and investors alike by laying the foundation for fair and efficient capital markets.

Question 15: *Should the agencies take into consideration the resolution plan of a covered entity submitted pursuant to Title I of the Dodd-Frank Act in determining which IDIs to scope into the proposed rule? For example, should the proposed IDI-level LTD requirement only apply to IDI subsidiaries of covered entities that have adopted an MPOE resolution strategy? What would be the advantages and disadvantages and potential incentive effects of applying an IDI- level LTD requirement to IDIs that are subsidiaries of covered entities that have adopted an SPOE resolution strategy?*

The Credit Roundtable recommends that agencies only require IDI LTD requirements for Category II-IV banks that choose an MPOE resolution strategy. We see no inherent

[1] [1] Formed in 2007, The Credit Roundtable ("CRT") is a group of large institutional fixed income managers including investment advisors, insurance companies, pension funds, and mutual fund firms, responsible for investing more than $5 trillion of assets. The Credit Roundtable advocates for creditor rights through education and outreach and works to improve fixed income corporate actions, ineffective covenants, and the underwriting and distribution of corporate debt. Its mission is to improve risk assessment and management through education and seeks to benefit all bond market participants through increasing transparency, market efficiency and liquidity. A current member list can be found here: https://thecreditroundtable.org/page/Members

reasons why the IDI of a Category II-IV bank that has adopted an SPOE resolution strategy should be treated differently than the IDI of a Category I bank that utilizes an SPOE resolution strategy by requiring it to issue internal TLAC. Aligning the treatment based on resolution strategy would add fairness and create incentives for Category II-IV banks to adopt SPOE resolution plans. It would also reduce complexity for investors of bank LTD debt, which is typically positive for cost of funding.

Given ongoing uncertainty in resolution outcomes after recent failures, The Credit Roundtable strongly encourages the agencies to finalize "source of strength" rules as mandated by the Dodd-Frank Act.

Question 27: *To what extent would limiting direct retail holdings of eligible external LTD contribute to concentration of eligible external LTD holdings by certain market participants?*

Holdings would be concentrated in insurance general accounts and large mutual funds where retail investors have high exposure. As such, it wouldn't meaningfully reduce retail investor exposure.

Question 28: *What minimum denomination amount is most appropriate in the range of $100,000 to $1 million? Would an amount greater than $400,000 be appropriate to provide further assurance these instruments will generally be held by investors who are well positioned to exercise market discipline and bear loss in the event of the failure of the issuer? Should the agencies require the debt instrument for eligible LTD to expressly prohibit their exchange into smaller denominations? Please explain.*

The industry standard is $2,000 minimum denomination and this is the amount the CRT recommends for external LTD requirements. Many institutional asset managers manage separate accounts (SMAs) or smaller mutual funds that may have relatively modest balances. It would not be unusual for a moderately-sized separate account for a pension fund, endowment, or trust to be in the range of $20-100 million. Similarly, a newly seeded mutual fund or ETF might have as little as $3-5 million in assets when first launched. Higher minimum bond denominations would create many problems for mandates of this size. For example, a separately managed account with $100 million in assets would be required to take a 0.4% weighting to any new issue assuming a $400,000 minimum denomination. The current market value weight of debt outstanding from Category II-IV banks ranges from 0.05% to 0.35% using the Bloomberg Credit Index (see figure below). As such, this separate account would be forced to take an overweight position in any Category II-IV bank debt it purchased relative to its representation in the benchmark, potentially creating significant issuer concentration issues and diminishing overall portfolio diversification. We believe this analysis would not be materially different for other common benchmark credit indices.

	FullCredit Index Market Value %	# of CUSIPs in FullCredit Index
Category 1 Banks		
BAC	2.29%	71
C	1.33%	53
GS	1.31%	43
JPM	2.02%	71
MS	1.59%	54
WFC	1.50%	46
BK	0.36%	35
STT	0.21%	23
Sub-Total	10.60%	396
Category 2 Banks		
NTRS	0.07%	7
Sub-Total	0.07%	7
Category 3 Banks		
COF	0.34%	22
SCHW	0.25%	24
PNC	0.34%	25
TFC	0.35%	25
USB	0.37%	21
Sub-Total	1.65%	117
Category 4 Banks		
ALLY	0.10%	8
AXP	0.33%	21
CFG	0.07%	11
DFS	0.09%	9
FITB	0.15%	14
HBAN	0.09%	10
KEY	0.13%	15
MTB	0.07%	7
RF	0.03%	4
FCNCA	0.01%	2
NYCB	NA	0
SYF	0.08%	8
Sub-Total	1.16%	109
Grand Totals	**13.49%**	**629**

This has material consequences for separately managed accounts with respect to building a diversified client portfolio. To further illustrate this point, the below table

shows the number of unique CUSIPs a SMA would be able to own to hold a market weight position by category of bank. For example, the manager of a $100mm separately managed account would only be able to buy 3 unique bonds from the 12 different Category 4 Banks in matching their aggregate ~1.20% benchmark market value exposure (i.e., $400k x 3 = $1.2mm = ~1.2% of $100mm). This would result in a significant portfolio diversification loss and an increase in client tracking error to their benchmark. It would also lead to an increase in funding costs for smaller banks as measured by the index representation of their debt which might subsequently be 'ignored' by asset managers as they shift their asset allocation to the largest Banks. We believe this is at odds with regulators' general intent to limit 'Too Big to Fail' and the desire to have an economically viable regional banking landscape to serve the needs of U.S. small and medium-sized businesses.

	#of CUSIPs to Match Each Category Market Value Exposure for a Given Portfolio Size				
	$50mm	$100mm	$150mm	$200mm	$250mm
Category 1 Banks	13	27	40	53	66
Category 2 Banks	0	0	0	0	0
Category 3 Banks	2	4	6	8	10
Category 4 Banks	1	3	4	6	7

Note: CUSIPs calculated by taking each aggregate Category MV % x Portfolio Size / $400,000

It is important to note that offering higher yields would not change the structural impediment to investing in bank debt with larger minimum denominations. We expect the market would clear with a different investor base at a higher yield which would negatively impact the cost of funding, lending capacity, system profitability, and competitiveness of US regional banks.

Larger minimum denominations could also create challenges for some SMA and mutual fund managers in allocating new issuance investments across accounts, which creates risks of not treating investors equally. It would also create problems when there are flows into or out of these accounts – for example, a $10 million flow into or out of a $100 million fund that has a bond holding with a $400,000 minimum denomination would make it impossible to add or reduce exposure to that position on a pro rata basis. Further, expressly prohibiting exchanging long-term debt into smaller denominations could increase market illiquidity and further concentrate these instruments into a small number of investors and mutual funds.

We also note that US banks issue preferred securities that rank junior to LTD in increments of $1,000 ("institutional preferreds") and $25 ("retail preferreds") that retail investors purchase. It is not clear why senior unsecured notes would be viewed as inappropriate for retail investors while common and preferred equity are allowed in low denominations. We also note that non-US banks issue senior unsecured debt in USD at much lower denominations than what is being proposed for US banks.

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If the agencies still believe that a minimum denomination between $100,000 and $1 million is necessary, then the Credit Roundtable would recommend adding a Qualified Institutional Buyer (QIB) opt-out with respect to the higher denomination requirement.

Question 30: *What would be the advantages and disadvantages of requiring eligible LTD issued by covered IDIs to be subordinated to general unsecured creditors? What implications, if any, would subordination of eligible LTD to general unsecured creditors have for other requirements?*

Requiring eligible LTD issued by covered IDIs to be subordinated to general unsecured creditors would reduce expected recovery on holding company LTD and increase the cost of funding.

Question 64: *To what extent do the disclosure tables proposed increase the likelihood that market participants fully understand the creditor hierarchy? Should the Board additionally require all Category II, III, and IV covered entities to provide the proposed disclosures?*

The creditor ranking for resolution entity disclosure table would help market participants understand the creditor hierarchy. The Credit Roundtable recommends requiring it for all Category I-IV covered entities. We recommend adding additional breakdown of TLAC/LTD maturities to include 0-1 year and 1-2 years. This disclosure should be provided in a similar cadence with other quarterly regulatory reports and preferably at the same time as earnings releases to give investors the required tools to assess related risk.

Question 65: *Should the Board require a similar disclosure for liabilities of material subgroup entities of a TLAC HC?*

The Credit Roundtable recommends requiring similar disclosures for material subgroups of Category I-IV covered entities.

Given the importance of this issue, the CRT would welcome an opportunity to discuss this with you in more detail. Please direct any questions to Kelly Byrne Skarupa of The Credit Roundtable at kbyrne@taminc.com or (914) 332-0042.

Sincerely,

The Credit Roundtable

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