January 16, 2024

Via Electronic Mail

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

James P. Sheesley, Assistant Executive Secretary
Attention: Comments/Legal OES (RIN 3064-AF86)
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, suite 3E-218
Washington, DC 20219

Re: Notice of Proposed Rulemaking: Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions (Docket No. R-1815, RIN 7100-AG66; RIN 3064-AF86; Docket ID OCC-2023-0011)

Ladies and Gentlemen:

U.S. Bancorp, together with its subsidiaries and affiliates (collectively, "U.S. Bank" or "we"), appreciates the opportunity to comment on the Federal Reserve Board's ("Board"), Federal Deposit Insurance Corporation's ("FDIC"), and Office of the Comptroller of the Currency's (together with the Board and FDIC, "Agencies") joint notice of proposed rulemaking (the "Proposal") on long-term debt requirements for large bank holding companies, certain intermediate holding companies of foreign banking organizations, and large insured depository institutions.[1] U.S. Bank supports the goals of ensuring the resolvability of regional banking organizations,[2] reducing risk to the deposit insurance fund, and mitigating financial stability and contagion risk.

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[1] Federal Reserve Board, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions, 88 Fed. Reg. 64524 (Sept. 19, 2023).

[2] As used in this letter, the term "regional banking organizations" refers to domestic large banking organizations in categories II, III, and IV under the Agencies' tailoring framework.

We write to offer a few recommendations on how to modify the Proposal to better achieve these objectives. In particular, we provide the following recommendations:

- The final rule should allow an insured depository institution's long-term debt requirements to be satisfied by any financial assets of a holding company—including intercompany deposit liabilities—that are pledged to secure the holding company's obligation to provide capital support to its insured depository institution subsidiary.
- The transition period for any new long-term debt requirements should commence after the end of the transition period for the Basel "endgame" capital rules.
- The final rule should not include the proposed minimum denomination.
- The Proposal's grandfathering provisions for legacy debt instruments are appropriate.

I. The final rule should allow IDI-level long-term debt requirements to be satisfied by any financial assets of a holding company—including intercompany deposit liabilities—that are pledged to secure the holding company's obligation to provide capital support to its IDI subsidiary.

Regional banking organizations' parent holding companies generally hold financial assets to meet potential liquidity needs and to facilitate compliance with regulatory and supervisory liquidity requirements. These financial assets are often in the form of intercompany deposit liabilities at their subsidiary IDIs and other short-term debt claims against their IDIs. The final rule should allow IDI-level long-term debt requirements to be satisfied by parent holding companies pledging these assets to secure an obligation to provide capital support to their IDI subsidiaries. In particular, a secured support agreement could be used to require the parent holding company to contribute these assets, including any internal deposit liabilities, to the IDI immediately prior to the IDI's failure.

The Agencies are already knowledgeable about the structure, design, and efficacy of these types of secured support agreements, because GSIBs rely on them to facilitate their resolution strategies. Not allowing regional banking organizations to similarly rely on these types of arrangements to meet IDI-level long-term debt requirements would increase burden on regional banking organizations and could place them at a competitive disadvantage relative to their GSIB competitors. For example, as explained in detail in the comment letter from the Bank Policy Institute, it would affect regional banks that are subject to the liquidity coverage ratio requirement by increasing the amount of "trapped liquidity" at their IDI subsidiaries, which in turn would reduce the amount of high-quality liquid assets at their IDI subsidiaries that can be counted by the holding company. Consequently, to maintain their liquidity coverage ratios and satisfy long-term debt requirements, regional banking organizations would effectively be required to issue more long-term debt than would otherwise be necessary.

II. The transition periods for the Basel "endgame" capital changes and the final rule on long-term debt should run sequentially, rather than concurrently, to allow banking organizations to prioritize CET1 accretion.

As the Agencies acknowledge in their impact analysis for the Proposal, long-term debt is generally more expensive than other types of short-term funding that banking organizations could otherwise use.[3] The Agencies have estimated that the LTD proposal would require $250 billion in total long-term debt, which reflects an incremental $70 billion of long-term debt relative to current levels.[4] However, the Agencies' analysis did not consider the inflationary effects of the Basel "endgame" capital proposal[5] on risk-weighted assets and the potential need for regional banking organizations to issue long-term debt in amounts that exceed the regulatory requirement to maintain their current liquidity coverage ratios. Accordingly, the Proposal may understate the incremental issuance that would be needed to comply with the Proposal. In addition, we estimate that the current market for eligible long-term debt would price at a coupon that is higher than the Agencies' cost estimate, which referenced funding costs during a period of near-zero interest rate policy. Taking into account these adjustments, the actual incremental funding costs of the Proposal for regional banking organizations may be higher than the Agencies have estimated. This cost will directly reduce affected banks' ability to accrete capital in preparation for the implementation of the Basel "endgame" changes. Consequently, banks may need to reduce their lending activity to comply with these regulatory changes, which could negatively affect credit availability and economic growth.

To mitigate these effects, the Agencies should coordinate the transition provisions for the Proposal with the transition provisions for the Basel "endgame" capital changes in a way that prioritizes the accretion of common equity tier 1 ("CET1") capital and minimizes impacts to borrowers and the broader economy. In particular, the transition periods for the proposals should run sequentially, rather than concurrently, to allow banking organizations to prioritize CET1 accretion without the potential increased funding costs related to the issuance of new long-term debt. In other words, the first year of the transition period for new long-term debt requirements should begin following the end of the transition period provided under the final Basel "endgame" rules. This approach would appropriately prioritize the accretion of CET1, given its status as the most loss-absorbing form of capital, while still ensuring that banks meet any new long-term debt requirements in a timely manner. If the Agencies elect not to implement this recommendation, then they should, at a minimum, align the transition periods for each rule to simplify implementation.

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[3] 88 Fed. Reg. 64552.

[4] *Id.*

[5] Shortly before issuing the Proposal, the Agencies issued a separate notice of proposed rulemaking—the Basel "endgame" proposal—that would substantially revise the capital framework for all category I, II, III, and IV banking organizations. *See* Federal Reserve Board, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity, 88 Fed. Reg. 64028 (Sept. 18, 2023).

III. The final rule should not include the proposed minimum denomination.

The Proposal would require long-term debt to be issued through instruments with minimum principal denominations of $400,000 and would exclude from eligibility long-term debt instruments that can be exchanged for smaller denominations. As explained in detail in the comment letter from the Bank Policy Institute, the minimum denomination requirement could adversely affect the liquidity of long-term debt instruments, both in primary and secondary markets, and would be inconsistent with the disclosure-based framework of the federal securities laws and longstanding aspects of the bank capital framework.

IV. We support the proposed grandfathering of existing long-term debt.

The Agencies have proposed, consistent with the 2017 TLAC rule, to permanently grandfather certain existing debt issued before the date of publication of the final rule in the Federal Register, regardless of certain features that might not otherwise be consistent with the rule's eligibility criteria. We support this aspect of the Proposal, because it would help to mitigate shortfalls in the final long-term debt requirement as regional banking organizations move toward issuances that meet the eligibility requirements included in the rule.

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U.S. Bank appreciates the opportunity to comment on the Proposal. If you have any questions, please do not hesitate to contact me.

Sincerely,

Luke Wippler
Treasurer, Executive Vice President