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January 16, 2024

VIA ELECTRONIC SUBMISSION

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
Docket No. R–1813, RIN 7100–AG64

Chief Counsel's Office
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218
Washington, D.C. 20219
Docket ID OCC–2023–000

James P. Sheesley, Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429
RIN 3064–AF29

Re: Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity

Ladies and Gentlemen:

We appreciate the opportunity to submit this letter to the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("FRB") and the Federal Deposit Insurance Corporation ("FDIC," and together the "Agencies") on their proposed rule (the "Proposal") to implement the 2017 revisions to the Basel Committee on Banking Supervision's Basel III framework.[1]

Who We Are

AllianceBernstein is a leading investment management firm offering high-quality research and diversified investment services to institutional clients, retail investors, and private-wealth clients in major markets around the globe. With over 4,000 employees across 57 locations operating in 26 countries and jurisdictions. As of November 30th our assets under management are $696bln.

1 Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, 88 Fed. Reg. 64028 (Sept. 18, 2023).

Banking organizations, including those that would be affected by the Proposal, are critically involved in each step of the investment lifecycle, including:

- Market making activities, liquidity-providing transactions such as repurchase agreements or other forms of collateralized lending;
- Derivatives products to help funds manage risks;
- Custody and securities settlement services;
- Fund administration and accounting services;
- Treasury and collateral management services, including foreign exchange services;
- Securities brokerage and execution services

Our ability to serve AllianceBernstein clients and hedge risks depends on our ability to access these critical services in a cost-efficient way. U.S. banks are our largest trading partners and liquidity providers across many of our business lines. As fiduciaries we have a responsibility to our clients to access key markets during both high and low volatility regimes to meet client liquidity needs and investment objectives. With the largest U.S. bank estimating the Basel 3 endgame NPR raising the Risk Weighted Assets by 30% or $500 billion, we worry that the ripple effect across the banking business will force all banks and others to reconsider allocations to capital intensive businesses. The impact of this move may result in reduced competition in these capital markets activities, higher fees, and lower liquidity for our clients. For example, the Futures Clearing Merchant (FCM) – clearing businesses are fee-based businesses that are likely to come under increasing stress if the NPR goes through. This has historically been a low return on capital fee business for banks. Clearing, however, is a key piece of the post global financial crisis framework that has increased the stability of the financial system for all participants including end users of cleared derivative products - AB clients. When markets are more stable, banks are more stable. We are concerned that these imposed frictions will lead to higher fees for end-users and that some FCMs to exit the businesses. Please note that only a handful of FCMs account for the vast majority of all cleared transactions.

Overview of Concerns

We (and our investors) would be critically and directly impacted by the Proposal, and therefore collectively have an interest in its calibration. To that end, we are members of a number of industry trade groups such as the Securities Industry and Financial Market Association, Asset Management Group and have participated in those discussions and comment letters. We share the concerns raised in those letters, and wholeheartedly endorse the recommendations made therein. We are particularly concerned about the impact of the Proposal on the buy side, including on market liquidity and access to critical services listed above.

A wide range of current and former regulators have raised these same concerns. For instance, FRB Chair Powell has noted that the Proposal may "increase[] the cost of, and reduce[] access to, credit," and that it may "threaten[] a decline in liquidity in critical markets," and a "movement of some of these activities into the shadow banking sector."[2] Similarly, former Federal Reserve Bank of New York President Bill Dudley observed that "[e]quity costs more than deposits or subordinated debt", that banking organizations will "pass [higher costs] on in the form of higher lending rates, higher trading costs and reduced market liquidity," and that "rising costs will inevitably make banks less competitive relative to non-bank institutions" resulting in "a much more fragile financial system."[3]

Moreover, we agree with both FRB Chair Powell that "[t]he U.S. banking system is sound and resilient, with strong levels of capital and liquidity," [4] and with FRB Vice Chair Barr that "that the existing approach to capital requirements is sound."[5] The post-crisis reforms have materially increased capital levels across the economy and made the financial system more resilient. In this regard, we agree with Bill Dudley's observation that "it's hard to see how the benefit of greater resilience will outweigh such costs" and that "there are definitely more cost-effective ways to achieve the desired outcome."[6] Although we acknowledge that capital requirements can be a useful prudential guardrail, as former Vice Chair for Supervision Randy Quarles recently remarked, "[a] doctor can prescribe you a pill but it doesn't mean that you will be much healthier if you take 100 of them."[7]

Independent analyses also validate our concerns. A recent Oliver Wyman report concludes that "[i]mplementation of [the Proposal] drives large capital increase for wholesale products" and could result in "[r]educed access to bank liquidity, financing, and risk management for a broad range of investors; [i]ncreased reliance on [nonbank liquidity providers to provide market liquidity in all market conditions; [r]educed ability to monetize illiquid assets, especially in stressed market conditions," as well as "[r]educed capital from banks for US corporations,

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2 FRB, Statement by Chair Jerome H. Powell (July 27, 2023), https://www.federalreserve.gov/newsevents/pressreleases/powell-statement-20230727.htm.

3 Dudley, *Bigger Financial Cushions Won't Solve Banks' Woes*, BLOOMBERG (Sept. 11, 2023).

4 FRB, Statement by Chair Jerome H. Powell (July 27, 2023), https://www.federalreserve.gov/newsevents/pressreleases/powell-statement-20230727.htm.

5 FRB, Vice Chair Michael S. Barr, Holistic Capital Review (July 10, 2023), https://www.federalreserve.gov/newsevents/speech/barr20230710a.htm.

6 *Supra* note 4.

7 Banking with Interest, *Quarles on Capital Plan, SVB Criticism, Interest Rates & Fed Power Dynamics* (Nov. 14, 2023), *available* here.

particularly private companies" and "[i]ncreased reliance on market-based financing or alternative sources of capital."[8]

Similarly, based on an analysis by the International Securities Lending Association of the impact of various jurisdictions implementation of the Basel framework[9] on various European buy side participants include: (1) a reduction in securities lending volumes, resulting in income flowing to European buy side participants falling approximately 35% to €800 million down from €1.2 billion; (2) increases in costs of hedging and foreign exchange activity, which the buy side will either pass to investors, savers and pensioners, resulting in lower future incomes, or decide not to hedge; (3) a reduction in economic activity resulting in a decline in future consumption, negative impacting economic growth; and (4) a reduction in market liquidity by adding an estimated €20-40 billion of trading costs to the buy side across Europe through wider bid-offer spreads.[10]

Specific Concerns of Importance

In addition to these overarching concerns regarding the Proposal and its calibration, we wanted to highlight certain aspects of the Proposal that are likely to have a deleterious effect on market liquidity, which is critical for the management of large pools of assets - which is a critical aspect of our business at AllianceBernstein. To the extent that the Agencies issue a final rule based on the Proposal, we recommend the following changes be made to the Proposal to make the final rule more risk sensitive, harmonize capital requirements across jurisdictions and prevent market disruption.

- The public listing requirements for favorable risk weights for investment grade corporate exposures should be removed, particularly for highly regulated funds such as registered investment companies. Such funds are subject to comprehensive prudential and activities regulations, including robust financial reporting standards that achieve the same consistency, transparency and market discipline concerns that the public listing requirement was meant to address.[11] For private corporations more generally, the public listing

[8] MORGAN STANLEY & OLIVER WYMAN, GLOBAL BANKS & ASSET MANAGERS: INTO THE GREAT UNKNOWN 21 (2023), *available* here.

[9] Based on an analysis by , capital requirements would be significantly higher for European G-SIBs under the more stringent U.S. capital framework. Andrea Enria, European Central Bank, Chair of the Supervisory Board (September 14, 2023), https://www.bankingsupervision.europa.eu/press/speeches/date/2023/html/ssm.sp230914~c6c0be0cc6.en.html.

[10] THOMAS AUBREY, ISLA, PRUDENTIAL BANKING RULES: BASEL III ENDGAME & THE BUY SIDE 8 (2023).

[11] These requirements include an extensive disclosure and supervision regime, as well as detailed transparency, asset valuation and investor disclosure requirements, including the issuance of fund prospectuses, regular reporting of audited and unaudited financial statements and the daily calculation of net asset values. *See, e.g.*, 17 CFR § 270.30a-1; 17 CFR § 274.150.

requirement is unnecessarily restrictive, and unjustifiably confers a funding advantage on the largest, publicly trade corporations.

- Consistent with the European Union, the final rule should exempt commercial and financial end-users from credit valuation adjustment ("CVA") requirements.[12] Commercial end-users, like farmers and manufacturing businesses and financial end users, like investment funds and insurance companies, rely on derivatives to hedge their risks. The Proposal's CVA component would make it more expensive for end-users to serve their customers by imposing additional costs on such banking organizations for providing them.

- Banking organizations should be able to use a more risk sensitive approach to measuring market risk. The Proposal's approach to market risk otherwise makes it difficult for investment funds, including regulated investment funds, to gain exposures to equity and credit markets in a cost-efficient manner, thus impacting their ability to maintain returns necessary to meet investor needs and hedge risk.

We wish to reiterate that while adopting these recommendations would materially improve a final rule, a more holistic approach to setting capital levels that takes into account all aspects of the capital and prudential regime (including capital buffers, stress testing, long-term debt requirements and resolution planning) as well as the impact on buy side participants is ultimately necessary.

Conclusion

The Proposal as currently drafted would hinder our ability to access critical services, and ultimately, our investors' ability to meet investment objectives. Moreover, the cost associated with the Proposal's increased capital requirements are not outweighed by benefits either to particular banking organizations or to the financial system.

Accordingly, we recommend the Agencies re-propose a revised version of this rule appropriately recalibrated in accordance with the rest of the capital regime and considers the impact on buy side participants. Alternatively, the Proposal should be modified to make the final rule more risk sensitive, harmonize capital requirements across jurisdictions and prevent market disruption. Although adopting these alternative recommendations will not completely mitigate the Proposal's harmful effect on our members, we believe they would meaningfully improve the final rule.

[12] As an alternative, the CVA framework could be made more risk sensitive, including by exempting a banking organization's exposure to its client resulting from its guarantee (or similar financial intermediation) to a central counterparty of its client's obligations from CVA requirements.

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Thank you for considering these comments. Please feel free to contact the undersigned with any questions.

Respectfully submitted,

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Matt Scott

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Susan Joyce

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