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**Via Electronic Filing:** <https://www.regulations.gov>

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Suite 3E-218  
Washington, D.C. 20219

Ann E. Misback  
Secretary, Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue NW  
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James P. Sheesley  
Assistant Executive Secretary  
Attn: Comments/Legal OES (RIN 3064-AF29), Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street NW  
Washington, D.C. 20429

**Subject: Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity (RINs 1557-AE78, 7100-AG64, 3064-AF29)**

## I. Introduction

Franklin Resources, Inc. and Invesco Ltd. appreciate the opportunity to comment on the proposal of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation to modify the regulatory capital requirements applicable to large banking organizations and banking organizations with significant trading activity<sup>1</sup>, which would implement the final components of the Basel III capital standards known as the Basel III endgame (the "**Proposal**").<sup>2</sup>

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<sup>1</sup> 12 C.F.R. Parts 3 (OCC), 217 (Federal Reserve) and 324 (FDIC).

<sup>2</sup> *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity*, 88 Fed. Reg. 64028 (Sept. 18, 2023), available at <https://www.govinfo.gov/content/pkg/FR-2023-09-18/pdf/2023-19200.pdf>.

**II. We endorse the SIFMA AMG Comment Letter dated January 16, 2024 (the “SIFMA Comment Letter”) and the ICI Comment Letter dated January 16, 2024 (“the ICI Comment Letter”)**

We have been actively engaged in the drafting of both the SIFMA Comment Letter and the ICI Comment Letter and we therefore strongly endorse both letters. We wish to supplement the SIFMA and ICI comments with some specific concerns about the potential harm that the Proposal could cause to our respective clients.

**III. About Franklin Templeton and Invesco**

Franklin Resources, Inc. [NYSE: **BEN**] (“**Franklin**”) is a global investment management organization with subsidiaries operating as Franklin Templeton and serving clients in over 150 countries. Franklin Templeton’s mission is to help clients achieve better outcomes through investment management expertise, wealth management and technology solutions. Through our specialist investment managers, the Company offers specialization on a global scale, bringing extensive capabilities in fixed income, equity, alternatives and multi-asset solutions. With more than 1,300 investment professionals, and offices in major financial markets around the world, the California-based company has over 75 years of investment experience and over \$1.5 trillion in assets under management as of January 1, 2024. For more information, please visit [franklinresources.com](http://franklinresources.com).

Invesco Ltd. [NYSE: **IVZ**] (“**Invesco**”) is a leading independent investment manager with over \$1.5 trillion in assets under management as of November 30, 2023. Invesco is a global company focused on investment management, and its services are provided to a wide range of clients throughout the world, including open-end mutual funds, exchange-traded funds, closed-end funds, collective trust funds, UCITS, real estate investment trusts, unit investment trusts and other pooled investment vehicles, as well as separately managed accounts for pensions, endowments, insurance companies and sovereign wealth funds. With more than 8,400 dedicated people in over 26 countries, Invesco applies passion, integrity and expertise every day to solving the needs of its clients and finding new ways for them to realize their goals. For more information, please visit [invesco.com](http://invesco.com).

Neither Franklin nor Invesco is a bank and neither firm has any affiliation with a bank. Both Franklin and Invesco are among the few truly global investment managers and are singularly focused on stewarding client assets in accordance with their expressed wishes and our fiduciary duties. However, we each work extensively with banks globally on behalf of our clients. To a significant extent we are required to do so by regulatory obligations, such as those requiring bank custodians for client assets under US law and those requiring bank depositaries for client assets under EU law. Thus, we collectively express our concerns as significant users and consumers of banking products and services on behalf our clients.

**IV. We are very concerned that the Proposal will harm our clients**

Simply put, we are very concerned that the Proposal will – unnecessarily – harm our clients. The SIFMA and ICI Comment Letters articulate well our many concerns. We would like to highlight a few points. We start with the rather puzzling provision in the Proposal that requires bank counterparties – in order to avoid punitive risk ratings – to be both investment grade and have publicly-traded securities. US registered investment companies (“**RICs**”) and their non-US

equivalents (such as EU UCITS) (“**foreign private funds**” or “**FPFs**” under the Volcker Rule) easily qualify as investment grade, as would many private funds. Yet, it is well known that with the exception of exchange-traded funds, the vast majority of investment funds do not have publicly traded securities because there is no need for them. As the ICI Comment Letter clearly articulates, the publicly-traded security requirement should be deleted. If it isn’t, those key clients of ours would be harmed – for no justifiable policy reason - by higher costs for banking products and services, lesser liquidity in key markets, diminished access to essential banking products and services and fewer available counterparties to provide them. In reality, RICs and FPFs in particular are among the most regulated and – as a result – creditworthy and liquid counterparties in the financial markets. Rather than protecting banks, by penalizing such funds on the arbitrary and inapt basis that they don’t have publicly-traded securities, the Proposal will harm both fund shareholders and market liquidity.

Next, we also note, as the ICI Comment Letter does, that both the EU and the UK Basel III implementations allow for the continuing use of internal models for evaluating the creditworthiness of such counterparties. Given that the Basel accords are by definition global standards, this is also an anomalous and, one would think, unnecessary digression by US regulators.

Finally, we provide one specific example of our concerns and the anomalous impact of the Proposal: In the years since the GFC, both Franklin and Invesco have had in place emergency lines of credit for certain of their respective retail investment funds with syndicates of major US and global banks. These credit facilities provide an important back-up availability of temporary funding, in the event that one of the funds has large redemptions and it is decided that it is in the best interests of the fund’s shareholders not to immediately sell portfolio securities to meet redemption funding needs. This seems precisely the type of liquidity management tool that global regulators – including bank regulators – like to see. Yet, we fear that the Proposal will at best increase substantially the costs of such lines (paid by our fund shareholders) and at worst cause the availability of such liquidity management tools to shrivel or disappear. That result cannot possibly be consistent with the interests of bank clients, investment fund shareholders or global financial stability.

In general, as we consider the effect of the Proposal on the financial markets in which we invest our respective clients’ assets, we believe that the Proposal will make it more difficult for asset managers like Franklin and Invesco to meet our clients’ investment goals, and also more difficult to mitigate risks in their portfolios as banks - as liquidity providers - abandon products, services or markets that are no longer viable. In addition to compromised investment and hedging opportunities, higher costs and lower investment returns, our clients may face concentration of risk and market volatility in the event such liquidity providers consolidate and/or limit access to products and services as a result of the effects of the Proposal.

Sincerely,



Paul J. Emlinger  
Deputy General Counsel  
Global Head of Public Policy  
Franklin Resources, Inc.



Andy Blocker  
Global Head of Public Policy and  
Strategic Partnerships  
Invesco Ltd.