FIFTH THIRD BANK

January 16, 2024

Via Electronic Communication

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

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

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

RE: Long Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions. OCC Docket—2023—0011. Federal Reserve Docket No. R-1815, RIN7100-AG86. FDIC RIN 3064-AF86.

Dear Sirs and Madams:

Fifth Third Bancorp, and its wholly owned subsidiary Fifth Third Bank National Association (collectively "Fifth Third") appreciate the opportunity to provide comments on the proposed rule that has been jointly presented for public comment by the Board of Governors of the Federal Reserve ("Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC"), and the Office of the Comptroller of the Currency ("OCC") ("the Agencies") regarding long term debt requirements ("Proposed Rule").

Fifth Third fully supports a minimum long-term debt requirement for large banking institutions. We believe that long-term, stable funding sources coupled with a well-diversified, granular core deposit base are the cornerstones of safe and sound liquidity risk management. We believe that a minimum long-term debt requirement provides added stability to the system and enhances transparency to the market on the liquidity risk profiles of institutions.

While fully supportive of the spirit of the proposal, Fifth Third writes today to offer two specific modifications to the Proposed Rule: (1) the Final Rule should be appropriately tailored to the size, risk, and complexity of institutions consistent with the enhanced prudential standards as modified in 2018[1] to avoid unnecessary complexity and unintended consequences. We believe a single consolidated requirement would be sufficient to address the needs of the FDIC while remaining consistent with the size and complexity of Category IV firms. (2) the Proposed Rule should allow current Category IV banks to issue and maintain long term debt at either the bank holding company ("BHC") or the Insured Depository Institution ("IDI"), and (3) the Proposed Rule should be delayed until a quantitative impact study is conducted.

While not a modification to the Proposed Rule, Fifth Third asks the joint agencies to consider delaying finalization of the long-term debt requirement until the finalization of the proposed capital rules. Since the long-term debt requirement will ultimately be calibrated to the risk-weighted assets of institutions, it is reasonable to request finalization of this rule follows the finalization of the proposed capital rules so institutions can better understand the impact of the long-term debt requirement.

Fifth Third respectfully submits these comments independently, and supports the submissions offered by a coalition of Category IV banks ("Coalition") and the submissions by the Bank Policy Institute, the Financial Services Forum, and others.

I. The Proposed Rule should be appropriately tailored for current Category IV banks consistent with enhanced prudential standards and the 2019 Tailoring Rules to prevent unnecessary complexity. A single consolidated requirement for Category IV banks would meet the FDIC's objectives while remaining consistent with the size and complexity of Category IV firms.

Regional banks come in a range of sizes and have a varying array of business models. The common thread among these banks is their simple business models, simple legal entity structures, and a reduced risk profile relative to the structure and activities conducted by Global Systemically Important Banks ("GSIBs"). Regional banks range in size from $50 billion to $250 billion in consolidated assets. Further, many of these banks hold almost all of their assets and conduct almost all of their business activity at the IDI. Most regional banks lack structural complexities that create additional risk to the banking system. While there have been recent high-profile bank failures that have formed the basis of this and many other pending proposed rules, the banks that failed are clearly distinguishable from the other Category IV banks. The failed banks, Silicon Valley Bank, Signature Bank, and First Republic Bank, grew rapidly, had significant concentrations of uninsured deposits, and business models that were not well diversified. These institutions generally operated with risk practices that were unsafe, unsound and do not reflect the risk profile of most regional banks.

The Proposed Rule would introduce a level of complexity that is inconsistent with the size and complexity of regional banks. The requirement that all qualifying debt must be met externally by the holding company and internally by the IDI introduces unnecessary complications with respect to liquidity management at key entities, hedging activities, operational risk, Reg W compliance, and increases the potential for trapped liquidity.

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[1] 12 U.S.C. § 5365(a)(2)(A) (2020)

Given the significant differences between GSIBs and Category IV regional banks, Fifth Third believes this rule could be revised to match the simplistic legal entity structure of Category IV regional banks by eliminating the unnecessary complexity presented by the dual requirement at the holding company and the IDI. For category IV institutions, a singular, consolidated long-term debt requirement is more appropriate and would reduce the risk for unintended consequences and undue burden introduced by the more complex requirement.

II. The Proposed Rule should allow current Category IV banks to externally issue long-term debt at either the parent holding company or the IDI.

The Proposed Rule features minimum long term debt requirements at both the holding company and the IDI. Fifth Third agrees that long-term debt is a valuable source of stable and resilient funding for both the holding company and IDI and offers benefits in the event of resolution. However, the Proposed Rule imposes undue complexity toward meeting the minimum requirement through its necessitating that IDI requirements be met solely through the issuance of internal long-term debt issued by the IDI to the holding company. This requirement will likely require the issuance of significantly greater long-term debt at the holding company – thus imposing far greater costs than estimated by the agencies – to ensure prudent liquidity risk management at the Holding Company.

Fifth Third seeks to ensure that its holding company is a source of strength for the IDI amid a range of economic and market environments. In doing so, Fifth Third maintains liquidity at the holding company to meet contractual obligations over an extended time horizon assuming no access to new liquidity. The Proposed Rule would require that the proceeds from external debt issued at the holding company be used to purchase long term debt issued internally by the IDI. As proposed, this dynamic would require significant incremental long term debt issuance – above and beyond the levels required by the Proposed Rule – by the holding company to maintain prudent liquidity levels consistent with BHC regulatory requirements. Generally speaking, to maintain prudent levels of liquidity at the holding company, it is required to prefund debt maturing within a year to minimize rollover risk and meet prudent levels of liquidity. Holding company liquidity held at the IDI is a source of support during a resolution and should be considered as part of the proposed rule. Excluding the holding company liquidity held at the IDI could incentivize an institution to reduce holding company liquidity targets.

Further, the Proposed Rule would effectively eliminate external long term debt issuance as a source of funding for the IDI, as such debt would not qualify toward the IDI-specific minimum requirement. The banking failures of March 2023 underscored the importance of maintaining a well-diversified portfolio of funding sources with appropriate management of rollover risk. Eliminating a source of stable, long-term funding would be counter to the objective of an IDI having a diversified funding profile. Further, it would restrict access to critical components of the long-term debt investor base, as certain investors prefer the risk and agency ratings profile of the IDI. Fifth Third believes there is significant value in having public debt widely distributed across a diversified investor base for the holding company and IDI.

Fifth Third offers that the Proposed Rule should be amended and appropriately tailored to allow Category IV banks to meet the minimum long-term debt requirements through external issuance out of either the holding company or the IDI. Further, long-term debt outstanding at the IDI should be eligible toward the BHC requirement to avoid imposing excess cost upon firms. These modifications would recognize the straightforward business models, lack of complexity, and lower risk profile of Category IV regional banks while meeting the goals the Agencies seek to achieve.

III. The Agencies should delay finalization and implementation until a quantitative impact study is conducted to review the impact the Proposed Rule would have on consumers, small businesses, financial institutions, and the macro-economy.

While Fifth Third fully supports prudential regulation and constructive changes to regulation that further strengthen the financial system, we are not supportive of swift actions that lack appropriate consideration of the adverse impacts on the broader economy and the communities and customers we serve. We specifically encourage thorough assessment of the impact to economically challenged and underserved communities and minority groups.

Fifth Third appreciates your consideration of these proposed modifications. Please feel free to contact us should you have any questions.

Sincerely,

Brennen Willingham
Treasurer