NCBA CLUSA
The National Cooperative Business Association • CLUSA International

The Honorable Michael S. Barr
Vice Chairman for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington D.C. 2049-9990

Mr. Michael J. Hsu
Acting Comptroller of the Currency
The Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

RE: Docket ID OCC-2023-008 "Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity"

Dear Vice Chair Barr, Chairman Gruenberg, and Acting Director Hsu,

On behalf of the National Cooperative Business Association CLUSA International (NCBA CLUSA), we appreciate the opportunity to provide comments on the Proposed Rulemaking ("proposal") entitled "Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity."

We write to express our concerns about the proposal's corporate exposures provision – in particular, its arbitrary requirement that a company have publicly traded securities outstanding to receive the lower risk weight of 65 percent. Despite a lack of substantiating evidence, this provision claims that non-public companies are less creditworthy because of their ownership structure. As our nation's leading voice for cooperatives, we find the proposal's bias against non-public companies troubling, especially when you consider that our membership includes firms with excellent financial strength ratings and are in highly regulated industries such as insurance and credit unions. Rather than a detriment to creditworthiness, the cooperative business model is proven to an entity's financial strength by creating greater alignment between the firm and the long-term interests of its customers – rather than the more short-term interests of the public equity markets[1].

Accordingly, we believe that the proposal's corporate exposures provision should not arbitrarily discriminate based on ownership structure since this factor does not have any bearing on an exposure's credit quality. Rather than using publicly traded securities outstanding as a criterion, all corporate

[1] https://mycreditunion.gov/about-credit-unions/credit-union-different-than-a-bank

exposures to investment grade companies – regardless of ownership structure – should receive a risk weight no greater than 65 percent.

Who We Are

Cooperatives are user-owned, democratically controlled businesses such as farmer-owned co-ops, credit unions, mutual insurance companies, and rural electric cooperatives. Unlike other forms of businesses that are owned by investors, all of co-ops' income, in excess of expenses and reserves, are distributed to the members based on how much the member uses the business. Cooperatives are formed for many reasons such as to address market failure, community need, or to create competition. Regardless of the reason, the very structure of a cooperative requires it to be responsive to its member-owners and in turn to the local community,

NCBA CLUSA represents cooperatives across all sectors of the economy. This includes more than 4500 credit unions, 900 electric cooperatives, 1800 agricultural co-ops, and almost 1000 worker cooperatives. NCBA CLUSA is the only cross-sector cooperative membership organization elevating the national conversation around a trusted, proven way to do business and build community. We believe that cooperatives play a vital role in creating economic opportunities that empower Americans and people around the world to improve their lives and the lives of future generations. In fact, there are 65,000 cooperative enterprises across the country and one in three Americans are a member of a co-op.

As for our mission, NCBA CLUSA works to build a better world and a more inclusive economy that empowers people to contribute to shared prosperity and well-being for themselves and future generations. By leveraging the shared resources of the cooperative movement, we seek to engage, partner with and empower people from all walks of life – particularly those left behind by a shifting economy and facing the greatest economic and societal barriers. We achieve this vision through collaborative partnerships in development, advocacy, public awareness and thought leadership.

Our Concerns About the Proposal's Corporate Exposures Provision

In its current form, the proposal's corporate exposures provision establishes a two-factor test for receiving the lower 65 percent risk weight. More specifically, the exposure must be to a company that is: (1) investment grade; and (2) has public securities outstanding (or the parent company that controls the company has such securities). As for the purported rationale for the public securities outstanding criterion, the proposal states that it is "a simple, objective criterion that would provide a degree of consistency across banking organizations." Moreover, the proposal states that "publicly-traded corporate entities are subject to enhanced transparency and market discipline as a result of being listed publicly on an exchange."

We are troubled by the proposal's suggestion that non-public companies – including co-ops such as our membership – are inherently less creditworthy due to their ownership structure. In addition to the lack of any real-world evidence that publicly traded companies are financially stronger than other types of business models, the proposal's logic falls short on a number of fronts. For instance, since co-ops are owned by the customers they serve, there is close alignment of interests between both sides – including an interest in the firm's long-term financial well-being and ability to fulfill its obligations. Public companies do not have the same alignment of interests – in fact, one could argue that their ownership structure is susceptible to the short-term interests of shareholders at the expense of the firm's long-term financial wherewithal.

Further, some of our members are in highly regulated industries – such as insurance, credit unions, food, and agriculture – which are subject to rigorous oversight and enhanced transparency. In fact, mutual life insurers – like all insurers – must file periodic financial statements which are publicly accessible and relevant to the competitive markets they serve. It therefore fails to reason why such companies should be regarded as less financially strong.

If the proposal's bias against non-public companies is left intact, we believe it will severely and needlessly disrupt the ability of some of our members to do business with banks. Moreover, it would establish an unjustified, harmful precedent that cooperatives and other non-public companies are inherently less creditworthy. We have strong objections to such a claim since it lacks any factual basis and maligns a long-standing business model which is critical to our country's economy and the welfare of so many Americans.

Accordingly, we respectfully request that the corporate exposures provision be revised so that having public securities outstanding is no longer a criterion. Rather, we believe that all investment grade companies should receive a risk weight no greater than 65 percent.

Thank you for your consideration of our input on this major rulemaking. As this process continues to unfold, we welcome the opportunity to provide additional input on behalf of our members.

In cooperation,

[redacted]

Doug O'Brien
President and CEO
NCBA CLUSA