



CENTER FOR CAPITAL MARKETS  
C O M P E T I T I V E N E S S

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February 11, 2016

Mr. Robert de V. Frierson  
Secretary  
Board of Governors of the  
Federal Reserve  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

**Re: Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations; Regulatory Capital Deduction for Investments in Certain Unsecured Debt of Systemically Important U.S. Bank Holding Companies, RIN 7100-AE37, 12 CFR Parts 217 and 252**

Dear Mr. de V. Frierson and To Whom It May Concern:

The U.S. Chamber of Commerce (“Chamber”)<sup>1</sup> created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21<sup>st</sup> century economy. The CCMC has commented<sup>2</sup> extensively on capital, leverage, and liquidity rules issued by the Board of Governors of the Federal Reserve (the “Federal Reserve”) and other banking regulators in the past. We believe that appropriate leverage and capital requirements are necessary to avoid over-leveraging; however, leverage and capital standards that are too onerous can have serious, unintended negative consequences.

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<sup>1</sup> The Chamber is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are users, preparers, and auditors of financial information.

<sup>2</sup> See also letter of June 14, 2011 from the Chamber to Federal Reserve Chairman Ben Bernanke on G-SIFI surcharges, letter of October 22, 2012 from the Chamber to the regulators commenting on the proposed Basel III regulations, letter of September 19, 2013 from the Chamber to the Bank of International Settlements commenting on *Revised Basel III leverage ratio framework and disclosure requirements*, and letter of September 23, 2013 from the Chamber to the regulators on *Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and their Subsidiary Insured Depository Institutions*.

Mr. Robert de V. Frierson  
February 11, 2016  
Page 2

Allowing suitable levels of risk-taking is a necessary element needed to fuel growth and innovation within the overall economy.

We support the use of capital standards to promote stability in the financial system and have commented extensively on the impact of capital, liquidity and leverage standards upon the ability of non-financial businesses to raise the resources needed to grow and operate.<sup>3</sup> We also strongly support the intent of the TLAC proposal to lessen taxpayer exposure to a resolution of a failed global systemically important bank (“GSIB”). However, we are concerned the TLAC proposed rule is excessive and may harm capital formation by raising the costs of capital and immobilizing resources that would have otherwise been used as productive capital for businesses to grow and operate.

We also believe that the TLAC proposal cannot be viewed in isolation and must be considered in conjunction with Basel III-related initiatives, as well as GSIB surcharges, to assess the cumulative impact of similar, multiple regulatory mandates. At the international level, the Financial Stability Board (“FSB”) has pursued this issue by conducting a Quantitative Impact Study (“QIS”), micro- and macro-economic impact assessments, market survey and historical loss survey (collectively the “TLAC Studies”). The TLAC Studies are an important step and we welcome this as evidence-based process to determine if the holistic approach to capital and liquidity are the right ones or if a different path is needed. Prior to finalizing the rule, we strongly request that the Federal Reserve conduct a similar study and conduct a rigorous cost-benefit analysis of the proposal, viewed in tandem with recent and future Basel III and other capital and leverage regulations.

Our concerns are discussed in greater detail below.

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<sup>3</sup> See June 14, 2011 letter from the Chamber to Federal Reserve Chairman Ben Bernanke on G-SIFI surcharges, October 22, 2012 comment letter to U.S. banking regulators on proposed Basel III regulations, September 19, 2013 letter to the BCBS on the Revised Basel III leverage ratio framework, September 23, 2013 letter to U.S. banking regulators on enhanced supplementary leverage ratio standards, January 31, 2014 letter to U.S. banking regulators on liquidity coverage ratio rules, January 31, 2014 coalition letter to U.S. banking regulators on liquidity coverage ratio rules, May 28, 2014 letter to NCUA on risk based capital, September 11, 2014 letter to Federal Reserve on Capital Plan and Stress test rules and September 19, 2014 letter to Bank of International Settlements on The Net Stable Funding Ratio.

## **Discussion**

Capital, liquidity, and leverage requirements are important tools to achieve and maintain stability within financial institutions. However, if those standards are too arduous they can have serious, unintended negative consequences for financial institutions and the broader business community.

Allowing suitable levels of risk-taking and having access to liquid, market-based capital are important elements of banking activity needed to fuel business growth, job creation, and innovation throughout the domestic and global economy. We recognize that providing access to liquid capital markets must be balanced with the need to establish appropriate safeguards to maintain the overall safety and soundness of the financial system.

The Chamber believes that the Federal Reserve's TLAC proposal may hamper and raise the costs of capital formation for non-financial businesses. This would be true of the proposal when taken in isolation, but is especially alarming when the impact of the TLAC proposal is viewed as part of the whole spectrum of prudential regulations. We also are concerned that the TLAC requirements are in significant excess of the standards established by the FSB, which harm the competitiveness of the American banking industry and also encourage foreign regulators to take retaliatory action against U.S. GSIBs operating in their jurisdictions.

### **I. Unclear, Conflicting, or Harmful Issues with the Proposed Rule**

#### *Unclear Estimate of How Much Long-Term Debt is Required By the Rule*

At the outset, we emphasize that there is still considerable uncertainty on how much capital will need to be raised by GSIBs under the Federal Reserve's proposed TLAC rule. Under the proposed rule, GSIBs must meet both a minimum external TLAC requirement and a minimum level of long-term debt. According to the Federal Reserve, there is a shortfall of \$90 billion that will need to be raised to meet this new eligible long-term debt ("LTD") requirement, which will fully cover the current estimated requirement of \$680 billion.

However, the Federal Reserve's estimate implicitly assumes that existing external LTD will qualify as eligible LTD or be grandfathered into the final capital requirements. As many have noted, however, the text of the current proposed rule does not include a grandfathering provision and current outstanding external LTD does not appear to qualify as eligible LTD for purposes of the proposed rule due to a number of limitations in the proposed rule, including with respect to the types of acceleration clauses which may be permissible.

This is a serious concern that fundamentally throws into question the amount of eligible LTD that will need to be raised by GSIBs as part of their TLAC requirements. More broadly, the lack of clarity on this issue is very concerning from the perspective of the need to conduct a rigorous cost-benefit analysis of the proposed rule, since the potential costs are currently unknown. We elaborate in-depth on the need to conduct a rigorous cost-benefit analysis of the proposed rule later in this comment letter and why such analysis is critically important to understanding the impact of capital and leverage rules to capital formation.

*Current Definition of Eligible Debt Securities Too Restrictive and Harmful to Capital Formation*

Within the definition of eligible LTD, we also believe that the approach taken by the Federal Reserve is too restrictive and limits GSIBs from raising the necessary capital to meet their TLAC requirements in an efficient and cost-effective manner. For example, the proposed rule makes certain acceleration clauses in LTD impermissible, which we believe is more restrictive than needed. The proposed rule's definition of eligible LTD also excludes structured notes, even when such notes have an original maturity of more than one year and are principal protected (i.e., the note specifies a minimum principal amount payable upon acceleration or termination). This restriction appears misplaced, particularly given the role of structured notes in the funding structures of many banks. Consequently, we believe that an exclusion of all structured notes from the definition of eligible LTD is misplaced.

A similar concern also arises with respect to the "Clean Holding Company" framework under the proposed rule, which caps the aggregate amount of certain unrelated liabilities equal to 5% of a G-SIB BHC's external TLAC. It is currently unclear if structured notes meeting the definition above would qualify as eligible debt

securities for purposes of the Clean Holding Company framework or if they would be included as unrelated liabilities.

Separately, it is also unclear to what extent legacy LTD that is raised between the time the proposed rule was issued and when the final rule is published in the Federal Register would qualify as eligible LTD. This again raises a concern highlighted earlier about the need to conduct a rigorous cost-benefit analysis of the proposed rule, particularly when the costs of the rule on GSIBs and capital formation in general remain unknown.

*Excessive Capital Requirements and Unnecessary TLAC Buffer*

We are also concerned about the use of an external TLAC buffer, its current calibration, and the limitations on capital distributions and bonus payments should a banking organization falls below the full requirement amount of the external TLAC buffer. The current rule would apply an additional common equity tier 1 buffer of 2.5%, plus any applicable G-SIB surcharges, plus any applicable countercyclical buffer in addition to the risk-weighted asset components of the external TLAC requirement.

Taken together, the TLAC buffer, G-SIB surcharges, countercyclical buffer, and external TLAC requirement would put the capital required to be held by G-SIBs at many multiples of the capital that would be needed in several of the Federal Reserve's stress testing scenarios. The Clearing House has conducted an empirical analysis of the significantly lower requirements proposed by the FSB and found that the FSB's 16% TLAC requirement alone is:

- 4.4 times greater than the average losses projected for U.S. GSIBs under the Federal Reserve's *severely adverse scenario* for the 2014 Dodd Frank Annual Stress Testing (DFAST) stress testing and Comprehensive Capital Analysis and Review (CCAR) exercise. According to the Clearing House, this assumes, for example, a 50% drop in the stock market and a 4% increase in unemployment to a 11.25% level, the highest since the great depression; and

Mr. Robert de V. Frierson  
February 11, 2016  
Page 6

- 2.6 times greater than average historical losses experienced at the largest failed U.S. financial institutions.<sup>4</sup>

We strongly believe that capital requirements of this magnitude have the ability to sideline capital from its most productive use in the economy, when in fact such capital is not necessary under the most adverse circumstances.

In addition, we believe that the Federal Reserve should also carefully study how this requirement interacts with incentive-based compensation arrangement rules currently being drafted by several agencies including the Federal Reserve and the Securities and Exchange Commission (the “Commission”). Under the proposed TLAC rule, stringent limitations will be placed on capital distributions, such as repurchases of capital instruments or dividend or interest payments, as well as discretionary bonus payments to executive officers, if the external TLAC buffer requirement begins to fall below a certain amount. Such requirements may be duplicative of the SEC’s own incentive-based compensation rules for covered financial institutions or may add unnecessary complication to those rules.

*Capital Deductions for Investments in Unsecured Debt of GSIB BHCs Applied to All Insured Depository Institutions*

We are concerned about the Federal Reserve’s plans to consult with the Office of the Comptroller of the Currency (“OCC”) and the Federal Deposit Insurance Company (“FDIC”) on the future applicability of capital deductions for investments in unsecured debt of GSIB BHCs (“TLAC cross-holdings deduction”). The Federal Reserve plans to discuss whether such capital deductions should apply to all insured depository institutions, and not just those regulated by the Federal Reserve. This will exacerbate the already problematic Basel III financial institution deduction, which already constrains the ability of banks to act as market makers and underwriters in the capital instruments of financial institutions. At the very minimum, we request that a

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<sup>4</sup> See Pg. 4, Joint Comment Letter, The Clearing House, SIFMA, ABA, FSR, Adequacy of Loss-Absorbing Capacity of Global Systemically Important Banking Groups in Resolution – Consultative Document, dated November 10, 2014, (Feb. 2, 2015), available at [https://www.theclearinghouse.org/~/\\_media/files/association%20related%20documents/20150202%20joint%20comment%20letter%20on%20fsb%20tlac%20proposal.pdf?la=en](https://www.theclearinghouse.org/~/_media/files/association%20related%20documents/20150202%20joint%20comment%20letter%20on%20fsb%20tlac%20proposal.pdf?la=en).

Mr. Robert de V. Frierson  
February 11, 2016  
Page 7

market making and underwriting exemption be provided for such offerings, given market liquidity implications.

At the Federal Reserve Board meeting to consider the proposed rule, during the Board's discussion Governor Powell raised a question on the proposal's effects on market-making.<sup>5</sup> In response, staff suggested that concerns about market-making are manageable given the proposal's five-day underwriting exemption for G-SIB debt. Indeed, while the underwriting exemption is necessary, it is critical to distinguish why a more complete solution requires both an underwriting *and* market-making exemption. The roles of both market maker and underwriter in the provisioning of liquidity to the market are essential, especially in times of market stress. An underwriting exemption solves the issue of ensuring there are banking entities willing to facilitate a primary debt issuance through underwriting such instruments and redistributing to the broader market; however, the issue that remains is ensuring there are banking entities willing to make markets, providing depth, immediacy and pricing certainty in the secondary market. As issuers look to fill the substantial shortfall of TLAC eligible debt and in the normal course of business, , we remain concerned that the proposed capital deduction approach, without an underwriting *and* market making exemption, will seriously impact the ability of GSIB BHCs to market make in unsecured debt securities of GSIB BHCs, given the penalty associated with such holdings. Furthermore, the implications of this deduction extend to the liquidity of capital instruments of financial institutions of all sizes, as such instruments share the same limited capacity with GSIB debt.

Regulators, market participants, and academics alike have noted that this liquidity impact is likely exacerbated as dealers reduce inventory in times of stress.<sup>6</sup> Accordingly, the January release of the Basel Committee's *Minimum Capital Requirements for Market Risk* rule provides that tailored domestic implementation is warranted: "where a bank demonstrates that it is an active market-maker, then a national supervisor may establish a dealer exception for holdings of other banks', securities firms', and other financial entities' capital instruments." It remains unclear why the proposed approach should be implemented as drafted in light of this

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<sup>5</sup> Transcript of Open Board Meeting to consider Total Loss-Absorbing Capacity, October 30, 2015, available at <https://www.federalreserve.gov/mediacenter/files/open-board-meeting-20151030.pdf>

<sup>6</sup> *Shifting tides - market liquidity and market-making in fixed income instruments*, BIS Quarterly Review, March 2015, available at [http://www.bis.org/publ/qtrpdf/r\\_qt1503i.htm](http://www.bis.org/publ/qtrpdf/r_qt1503i.htm)

international authority and especially when the federal banking regulators have the preexisting authority and responsibility under the general safety and soundness supervision to ensure adequate market liquidity.

We therefore fully support the Basel Committee's suggested review of the deduction framework for holdings in debt and capital instruments of financial institutions. Moreover, we recommend modification of the proposed rule to allow for (i) a market making exemption in addition to the existing underwriting exemption for market making in GSIB debt and financial institution capital instruments alike, (ii) a recalibration of the 10% common equity tier 1 threshold if TLAC cross-holdings are to be included in the existing Basel III financial institution deduction, and (iii) a like-for-like deduction of impermissible TLAC holdings first from external long term debt and, only when this tier is exhausted, from Tier 2 capital.

#### *Unclear Rules for Applicability to Certain Intermediate Holding Companies*

Under the proposed rule, the Federal Reserve would, in certain circumstances, be permitted to treat some intermediate holding companies ("IHCs") as GSIBs for purposes of the TLAC requirement even if that entity has not been designated as a GSIB by the FSB. This would occur if the Federal Reserve believes that either (i) a foreign banking organization has the features of a GSIB under the methodology used by the Federal Reserve for determining whether U.S. bank holding companies are GSIBs under its capital rules or (ii) if the Federal Reserve determines that the U.S. IHC would itself be a GSIB under the Federal Reserve's methodology. We believe that this approach will only incentivize foreign regulators to take retaliatory action against U.S. GSIBs operating within their jurisdiction when the Federal Reserve takes action to treat an IHC or its parent as a GSIB. This is particularly true given the current differences relating to the capital requirements associated with single point-of-entry and multiple point-of-entry resolution, which is a major difference between the U.S. and EU resolution schemes.

#### *Compliance Deadline Too Aggressive in Light of Lack of Clarity on Required Capital*

The proposed rule requires that a GSIB begin complying with the TLAC risk-based ratio at a transitional level as of January 1, 2019. This level is 16% for GSIB BHCs and covered IHCs that are resolution entities and 14% for covered IHCs that



are non-resolution entities. Given the concerns raised above about what preexisting debt will constitute eligible LTD and whether such instruments will be grandfathered, we believe that there should be significantly more time to raise the capital required under the rule, especially while these issues are being resolved. Market participants are currently unable to raise debt that will satisfy the rule's TLAC requirements with the knowledge that that such debt will be eligible LTD.

## **II. Adverse Consequences for Capital Formation and Economic Growth**

Under the proposed rule, domestic GSIBs would have total loss absorbing capacity equal to as much as 18% of their risk weighted assets and 9.5% of total leverage exposure and would be required to hold a long-term debt amount the greater of 6% plus its GSIB surcharge of risk-weighted assets and 4.5 percent of total leverage exposure. This is in addition to a 2.5% capital conservation buffer and a bank-specific GSIB capital surcharge. The Federal Reserve estimates that this will increase loss-absorbing capacity by 60% or more.<sup>7</sup>

We are concerned that these excessive capital requirements will impact the competitiveness and ability of U.S. businesses to grow and access financing. Main Street businesses use a diverse and complex system to meet their daily cash needs and provide resources for long-term growth. These needs are met through the debt markets, equity markets, short term financing and liquidity providers such as investment banks, commercial banks, private equity firms, and many others. This system works if markets are open and appropriately regulated to ensure an even playing field, and to provide useful information which allows participants to make decisions on how to best deploy or acquire capital. Rules, though well intentioned, that harm liquidity or skew the decision making process will distort the flow of capital, ultimately jeopardizing the ability of domestic and global economies to grow while undermining the very goal of financial stability that regulators seek to achieve.

We strongly believe that the Federal Reserve's TLAC proposal may reduce the capital available for businesses, raise the costs of capital formation, and hamper the ability of the capital markets to operate in an efficient and necessary manner.

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<sup>7</sup> Press Release, Total Loss-Absorbing Capacity, Board of Governors of the Federal Reserve System (Oct. 30, 2015), available at <http://www.federalreserve.gov/newsevents/press/bcreg/20151030a.htm>.

While retained earnings and securities issuances are a means of meeting the TLAC requirements, they are also the vehicles for financial institutions to raise the resources needed for capital requirements and buffers. Accordingly, as financial institutions are striving to meet these targets, there is a limit as to how much retained earnings and securities issuances can be used to meet these goals, as well as meeting the requirements of TLAC.

The required capital raise in the debt markets can stress and strain the capital formation process for the overall business community in several ways. Capital markets are finite markets. Debt issuances of the scale required by the Federal Reserve's TLAC proposed rule, outside the ordinary course of business, by financial institutions will reduce the ability of non-financial firms to access the debt markets. By creating supply and demand pressures, the amount of debt financing available to non-financial businesses will decrease, while the cost of that debt will increase.

Therefore, the TLAC proposed rule may siphon off capital by sidelining resources until they are needed for a GSIB recapitalization or wind down. This is the equivalent of removing billions dollars of productive capital, normally used by the business community, from the global economic circulatory system. A reduction of productive capital on this scale will have negative consequences and undermine the ability of the global economy to achieve the economic growth as envisioned by the G20 Brisbane Summit communique.

In response, the business community will be faced with a series of unattractive options. Businesses will need to plan for longer time horizons for financing at higher costs, engage in riskier financing with higher costs and a greater down-side, or simply to build cash reserves which is an inefficient and unproductive use of resources for businesses and the macro-economy as a whole. None of these choices are good ones for businesses, and economic growth will suffer as a result.

Risk, like energy, cannot be destroyed but only transferred. These alternatives for the business community will push risk to the outer edges of the financial system, making our capital markets less stable and more inefficient. Such an outcome would defeat the purpose of the TLAC proposal.

The Chamber is concerned that our members are already facing higher costs and less liquid markets. This is happening even during a period of extraordinarily accommodative monetary policy. While we agree with the objectives of the TLAC proposed rule, we believe they have largely been met through previous rulemakings and that the accelerating costs have begun to outweigh the benefits.

### **III. Comprehensive Review of Initiatives Impacting Business Capital Formation Needed**

In previous comment letters, we have called for a comprehensive study of various regulatory initiatives as well as the impacts of those initiatives on the broader global economy and the capital formation system that is the linchpin for growth.

We believe that such studies are critical to understanding the impact of capital and leverage requirements on capital formation and urge the Federal Reserve to conduct a similar, comprehensive analysis. A review of the initiatives impacting business capital formation illustrates:

- The Leverage Ratio Framework materially increases the minimum capital requirement by product relative to Basel III. Additionally, the Leverage Ratio Framework and the proposed Net Stable Funding Ratio penalizes many low-risk activities that may harm the ability of non-financial businesses to access markets to prudently mitigate risk or manage cash and liquidity;
- The Liquidity Coverage Ratio creates disincentives for financial institutions to offer certain products and services to businesses even though those activities were not the cause of the financial crisis;
- GSIB Capital Surcharges will force large internationally active banks to withdraw additional capital from productive capital formation streams;
- The complex regulatory regimes envisioned by the final Volcker Rule, and the proposed Vickers and Bank Structural Reform rules, are expected to impact the ability of non-financial businesses to enter the

debt and equity markets by raising costs and creating barriers of entry to the capital markets;

- Money Market Fund reforms will harm the ability of non-financial businesses to access the short-term commercial paper markets and manage cash; and
- If the Volcker, Vickers and Bank Structural Reform, and Money Market Fund reforms hamper capital formation, the next alternatives are commercial lines of credit; however, Basel III creates disincentives for banks to provide businesses with commercial lines of credit.<sup>8</sup>

The combination of all of these initiatives could lead to an underperforming financial sector and create barriers to capital formation. The inability of businesses to be able to engage in normal capital formation activities, efficient cash management and effective risk management will raise costs and create inefficiencies, adversely impacting economic growth and financial stability.

Therefore, we believe that the Federal Reserve should conduct a comprehensive study to determine: (1) how all of these initiatives will interact and work together; (2) determine the impacts of these initiatives upon the broader macro-economy; and (3) use modeling techniques to “war-game” these new regulatory structures, identify faults and shape comprehensive fixes. This information will be invaluable to the shaping of a final rule for TLAC requirements and would help mitigate potential unintended consequences with the other initiatives discussed above, as well as how the final rule should be molded to avoid potential harm to the ability of businesses to raise the resources needed to expand and operate.

#### **IV. Enhanced Cost Benefit and Economic Analysis Needed Before Liquidity Coverage Ratio Rules can be Finalized**

The proposed TLAC rule must follow the requirements of the Administrative Procedures Act (“APA”). Additionally, the Federal Reserve is subject to the

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<sup>8</sup> This list is by no means an exhaustive list of regulations and capital initiatives that should be reviewed with such a study. This list is illustrative of the types of initiatives that should be studied.

Mr. Robert de V. Frierson  
February 11, 2016  
Page 13

Regulatory Flexibility Act (“RFA”) and the Paperwork Reduction Act (“PRA”). The RFA requires assessment of the economic effect of regulations on small business and consideration of less burdensome alternatives. The PRA requires assessment of the paperwork burden on small entities and ways to reduce or mitigate it.

The Federal Reserve must also comply with the Small Business Regulatory Enforcement Fairness Act (“SBREFA”). Among other things, the portion of SBREFA known as the Congressional Review Act states that rulemaking agencies must submit to GAO, and make available to each house of Congress, “a complete copy” of any cost-benefit analysis prepared for a final rule for which such an analysis is performed.<sup>9</sup>

Additionally, the Federal Reserve is subject to Riegle Community Development and Regulatory Improvement Act (“Riegle Act,” 12 U.S.C. §4802(a)). The Riegle Act mandates that “[i]n determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions, each Federal banking agency shall consider, consistent with the principles of safety and soundness and the public interest - (1) any administrative burdens that such regulations would place on depository institutions, including small depository institutions and customers of depository institutions; and (2) the benefits of such regulations.”

Although the Federal Reserve is an independent agency, it has also avowed that it will seek to abide by Executive Order 13563. The Federal Reserve recently stated that it “continues to believe that [its] regulatory efforts should be designed to minimize regulatory burden consistent with the effective implementation of [its] statutory responsibilities.”<sup>10</sup> As recently as October 24, 2011, the Federal Reserve wrote a letter to the Government Accountability Office acknowledging the need to engage in a cost-benefit analysis and asserting that the Federal Reserve’s use of such an analysis, since 1979,<sup>11</sup> has mirrored the provisions of regulatory reform as articulated in Executive Order 13563.<sup>12</sup>

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<sup>9</sup> 5 U.S.C. 801(a)(1)(b)(i)

<sup>10</sup> November 8, 2011, letter from Chairman Ben Bernanke to OIRA Administrator Cass Sunstein.

<sup>11</sup> Board of Governors of the Federal Reserve System, Statement of Policy Regarding Expanded Rulemaking procedures, 44 Fed. Reg. 3957 (1979)

<sup>12</sup> See letter from Scott Alvarez, General Counsel of the Federal Reserve, to Nicole Clowers, Director of Financial Markets and Community Investment of the General Accountability Office.

The CCMC strongly recommends that the Federal Reserve establish a baseline for cost-benefit and economic analysis using the blueprint established by Executive Orders 13563 and 13579, in addition to other requirements they must follow.<sup>13</sup> Doing so would allow meaningful, cumulative analysis that would result in a more coherent final rule with fewer harmful, unintended consequences for the American economy.

Executive Order 13563 places upon agencies the requirement, when promulgating rules to:

- 1) Propose or adopt a regulation only upon a reasoned determination that its benefits justify its costs (recognizing that some benefits and costs are difficult to justify);
- 2) Tailor regulations to impose the least burden on society, consistent with obtaining regulatory objectives, taking into account, among other things, and to the extent practicable, the costs of cumulative regulations;
- 3) Select, in choosing among alternative regulatory approaches, those approaches that maximize net benefits (including potential economic, environmental, public health and safety and other advantages; distributive impacts; and equity);
- 4) To the extent feasible, specify performance objectives, rather than specifying the behavior or manner of compliance that regulated entities must adopt; and
- 5) Identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior, such as user fees or marketable permits, or providing information upon which choices can be made to the public.<sup>14</sup>

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<sup>13</sup> Executive Order 13579 requests that independent agencies follow the requirements of Executive Order 13563.

<sup>14</sup> Executive Order 13563

Mr. Robert de V. Frierson  
February 11, 2016  
Page 15

Additionally, Executive Order 13563 states that “[i]n applying these principles, each agency is directed to use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible.”

Conducting the rulemaking and its economic analysis under this unifying set of principles will facilitate a better understanding of the rulemaking and its impact and give stakeholders a better opportunity to provide regulators with informed comments and information.

### **Conclusion**

We have highlighted several concerns with proposed TLAC rule, ranging from what we consider to be excessive capital requirements to the restrictive nature of how GSIBs may comply with their obligations under the proposed rule. These concerns are significant and, if not addressed, will sideline productive capital and limit the ability of Main Street business to grow and prosper.

The CCMC believes that the Federal Reserve needs to achieve a better understanding of the impacts of the TLAC proposed rule on capital formation and the collateral effects on financial stability, meaning that the proposed rule should go through a more enhanced cost-benefit analysis. We thank you for your consideration of these comments and would be happy to discuss these issues further with you or your staff.

Sincerely,

A handwritten signature in black ink, appearing to read 'TK' followed by a long horizontal flourish.

Tom Quadman