December 7, 2020
Via electronic mail

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

Re: Input on Draft SR Letter Clarifying the Firms Subject to the Large Institution Supervision Coordinating Committee ("LISCC") Supervisory Program

Ladies and Gentlemen:

The Securities Industry and Financial Markets Association ("SIFMA"), the Institute of International Bankers ("IIB"), the Bank Policy Institute ("BPI"), and the American Bankers Association ("ABA")[1] appreciate the opportunity to comment on the draft SR Letter issued by the Board of Governors of the Federal Reserve System (the "Board") defining the financial institutions subject to the Large Institution Supervision Coordinating Committee ("LISCC") supervisory program as institutions subject to Category I standards under the Board's tailoring framework, as well as the Board's request for input on the appropriate criteria for including international banks in the LISCC program in the future should the risk of their U.S. operations increase.[2]

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[1] See Appendix 2 for a description of the associations.

[2] Draft SR Letter, "Firms Subject to the LISCC Supervisory Program." Available at: https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20201106a1.pdf. The provisions of the SR Letter are intended to become effective on January 1, 2021. Specifically, the draft SR letter defines financial institutions that will be subject to the LISCC supervisory program as (i) any firm subject to Category I standards under the Board's tailoring framework, (ii) any non-commercial, non-insurance savings and loan company that would be identified for Category I standards if it were a bank holding company, and (iii) any nonbank financial institution designed as systemically important by the Financial Stability Oversight Council ("FSOC").

We strongly support the Board's decision to define the financial institutions subject to the LISCC program as any firm subject to Category I tailoring standards and recommend it continue to use this same applicability definition when it updates the draft SR Letter prior to March 31, 2021. We also outline *additional* applicability criteria that the Board could consider should the risk of any international bank's U.S. operations significantly increase in the future.

Decision Appropriately Reflects the Reduced Size and Risk Profile of the LISCC International Banks

The Board's decision provides a transparent and simplified approach that is grounded in regulation and prior tailoring efforts, which we support. It is also fully consistent with the intentions of Section 165 of the Dodd-Frank Act[3], which empowered the Board to establish enhanced regulatory standards for "large, interconnected financial institutions" that "are more stringent than the standards…applicable to [financial institutions] that do not present similar risks to the financial stability of the United States" and "increase in stringency" in proportion to the systemic importance of the financial institution in question.

For international banks operating in the United States, the decision appropriately reflects the substantive reductions in their footprint and risk profile since the establishment of the LISCC program. When the LISCC program was created in 2010, the international banks within the portfolio had vastly larger U.S. footprints – in terms of both size and risk profile – than they do today. Vice Chair Quarles acknowledged this in remarks in January 2020:

> Since 2010, the LISCC [international banks] have significantly shrunk their U.S. footprint, and their U.S. operations are much less risky than they used to be. Since 2008, the size of the LISCC [international banks'] combined U.S. assets has shrunk by about 50 percent, and they have reduced the assets at their broker-dealers from a peak of $1.9 trillion in 2008 to $340 billion today, a reduction of over 80%. In addition, the estimated systemic impact of the LISCC [international banks] today is much smaller than the U.S. GSIBs ["Global Systemically Important Banks"]. The average method 1 GSIB score of the combined U.S. operations of the LISCC [international banks] is less than a quarter of the average GSIB score of the six non-processing U.S. GSIBs.[4]

As the IIB letter, submitted earlier this year in relation to the proposed resolution plan guidance for certain large international banks noted,[5] the three remaining LISCC international banks have reduced the aggregate size of their Intermediate Holding Companies ("IHCs") by 38% (from $605 billion to $374

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[3] 12 U.S.C. § 5365 (a)(1).

[4] Vice Chair for Supervision Randal K. Quarles, "Spontaneity and Order: Transparency, Accountability, and Fairness in Bank Supervision" (Jan. 17, 2020) (hereafter referred to as Quarles remarks on supervision).

[5] Institute of International Bankers, Comment Letter on the Proposed Guidance, June 4, 2020, p. 5. Available at: https://www.federalreserve.gov/SECRS/2020/June/20200615/OP-1699/OP-1699_060420_137282_438389509547_1.pdf.

billion) between 2016 and 2019, and have reduced their aggregate broker-dealer assets by 45% (from $475 billion to $262 billion).[6] As a result, the assets of the remaining LISCC international banks are a small fraction of those of the non-processing U.S. GSIBs (see Figures 1 and 2 in Appendix A, which compare their total IHC and Combined U.S. Operations ("CUSO') assets to those of the six non-processing U.S. GSIBs).

Today, these institutions also have a dramatically reduced risk profile. Figures 3 and 4 in Appendix 1 include a broad range of systemic risk indicators outlining the limited risk profile of these institutions. The current systemic footprint of the LISCC international banks is extraordinarily small compared to the other members of the LISCC program. For example, the average method 1 GSIB score for the IHCs of LISCC international banks is just 14 percent that of the six non-processing U.S. GSIBs, while the average method 1 GSIB score for the international banks' CUSOs is only 20 percent that of the six GSIBs.[7]

It is clear then that these firms are no longer of the size or risk profile of other LISCC institutions. Therefore, as Vice Chair Quarles rightly acknowledged, "there is a compelling justification" to remove the LISCC international banks from the program.[8] This will enhance the efficiency and effectiveness of the Board's oversight of both the U.S. GSIBs and the affected international banks, ensuring that each set of firms are more appropriately compared to their peer groups.

Use of Additional Applicability Criteria

We strongly believe that the tailoring Category I standards should continue to be used to define which firms are included in the LISCC program when the Board updates the draft SR Letter prior to March 31, 2021. However, the Board could consider adopting *additional* criteria that would allow for international banks to be scoped into the LISCC program should the risk posed by their U.S. operations significantly increase in the future. The most appropriate additive scoping mechanism in this instance would be to use the Method 1 GSIB scoring methodology, with the Board adopting the existing regulatory threshold it uses to categorize firms as U.S. GSIBs as the criteria for inclusion in LISCC.[9] The GSIB Method 1 framework has the benefit of being consistent with the tailoring rules[10], while providing a mechanism that would allow

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[6] See National Information Center, https://www.ffiec.gov/NPW (total asset data taken from Form Y-9Cs filed for fourth quarter 2016 through fourth quarter 2019).

[7] Additional data points illustrating this decline in risk profile are discussed in the joint trades response to the proposed resolution plan guidance for certain large international banks. See BPI, ABA, and SIFMA, Comment Letter on Proposed Guidance, June 1, 2020. Available at: https://www.federalreserve.gov/SECRS/2020/June/20200615/OP-1699/OP-1699_060120_137280_376548449594_1.pdf.

[8] Quarles remarks on supervision.

[9] 12 U.S.C. § 217.402.

[10] We address the use of alternative scoping methodologies that are inconsistent with the tailoring rules (as well as international standards) in our trade associations' various letters on the proposed resolution plan guidance for certain large international banks.

for the inclusion of international banks in the LISCC program should they grow to a size and scope that made them comparable to the U.S. GSIBs.

We understand that it is not the Board's intent to adopt criteria that would re-scope international banks into the LISCC program when it issues its updates to the draft SR Letter in March 2021. However, to the extent that the Board wishes to make further changes to the applicability criteria for the program, they should first seek public comment.

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We appreciate your consideration of our input on this draft SR Letter. If you have any questions regarding this letter, please contact the undersigned.

Sincerely,

Peter J. Ryan
Managing Director, Head of International Capital Markets and Prudential Policy
Securities Industry and Financial Markets Association

Stephanie Webster
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Institute of International Bankers

Lauren Anderson
Senior Vice President and Associate General Counsel
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Appendix I: Asset Size and Systemic Risk Comparisons Between Non-Processing LISCC Firms

Figure 1: Total Assets of Non-Processing LISCC Firms as of Q2 2020 (IHC Basis)

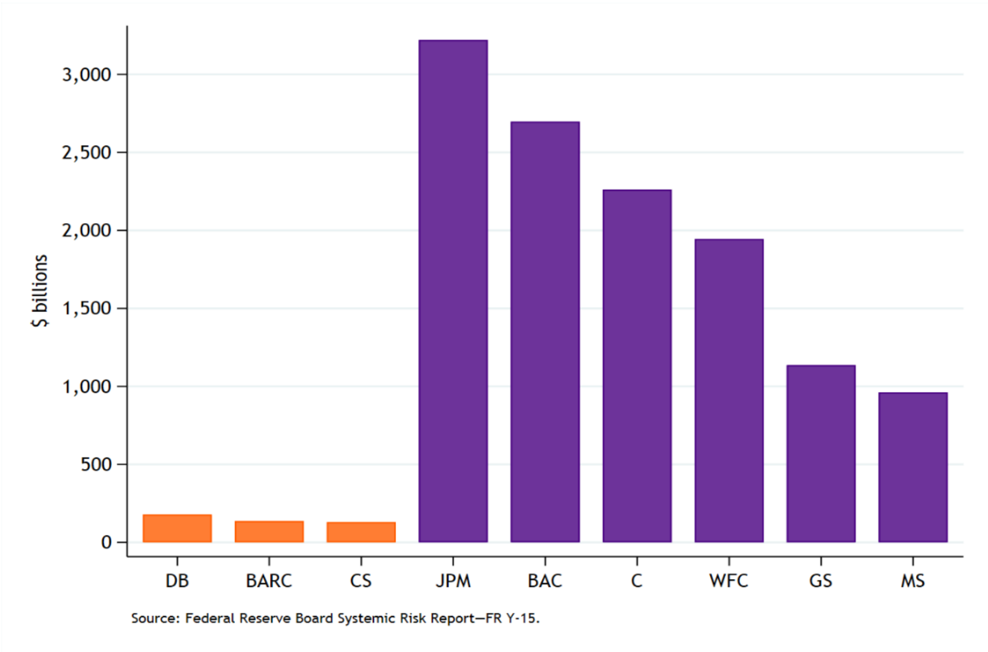


Figure 2: Total Assets of Non-Processing LISCC Firms as of Q2 2020 (CUSO Basis)

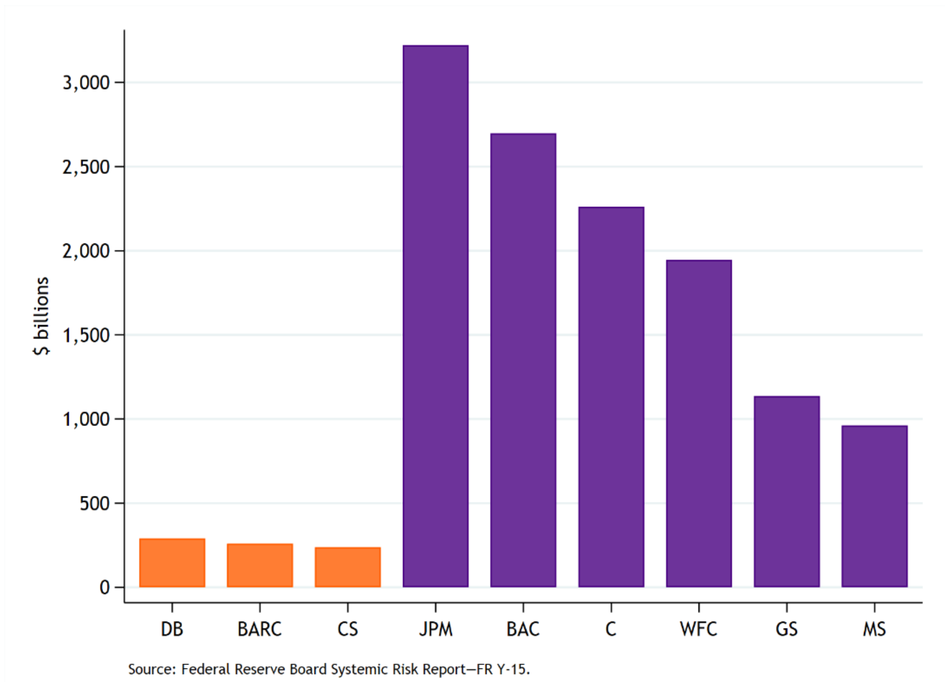
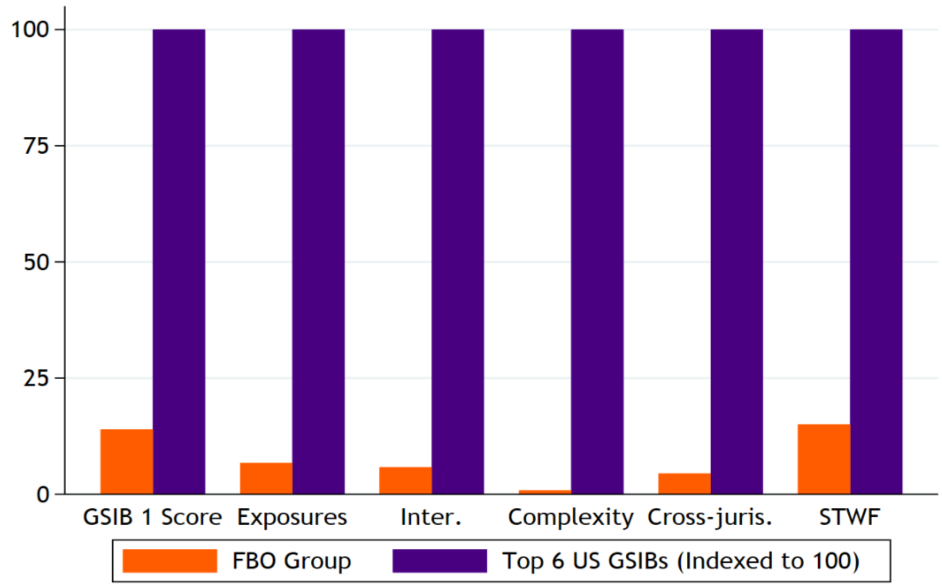
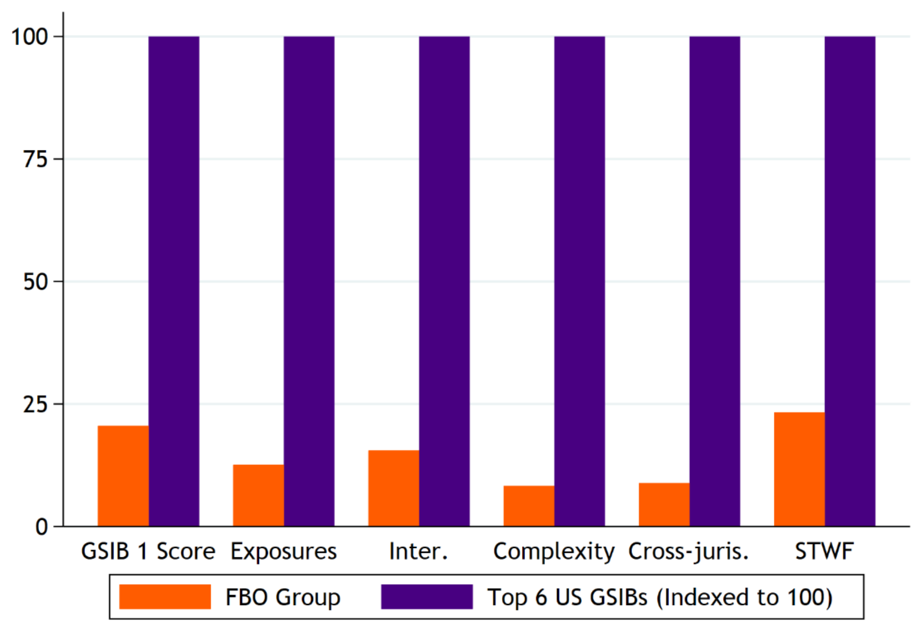


Figure 3: Systemic Risk Indicators of Non-Processing LISCC Firms as of Q2 2020 (IHC Basis)



Source: Federal Reserve Board Systemic Risk Report—FR Y-15.

Figure 4: Systemic Risk Indicators of Non-Processing LISCC Firms as of Q2 2020 (CUSO Basis)



Source: Federal Reserve Board Systemic Risk Report—FR Y-15.

Appendix 2: Description of the Associations

American Bankers Association (ABA)

The American Bankers Association is the voice of the nation’s $21.1 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard nearly $17 trillion in deposits and extend nearly $11 trillion in loans.

Bank Policy Institute (BPI)

The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation's leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation's small business loans, and are an engine for financial innovation and economic growth.

Institute of International Bankers (IIB)

The Institute of International Bankers is the only national association devoted exclusively to representing and advancing the interests of the international banking community in the United States. Its membership is comprised of internationally headquartered banking and financial institutions from over 35 countries around the world doing business in the United States. The IIB’s mission is to help resolve the many special legislative, regulatory, tax, and compliance issues confronting internationally headquartered institutions that engage in banking, securities and other financial activities in the United States. Through its advocacy efforts the IIB seeks results that are consistent with the U.S. policy of national treatment and appropriately limit the extraterritorial application of U.S. laws to the global operations of its member institutions.

Securities Industry and Financial Markets Association (SIFMA)

SIFMA is the leading trade association for broker-dealers, investment banks, and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate on legislation, regulation, and business policy affecting retail and institutional investors, equity and fixed income markets, and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).