September 15, 2014

The Honorable Janet L. Yellen
Chair
Federal Reserve Board
Eccles Board Building
20th and C Street, N.W.
Washington, D.C. 20551

The Honorable Thomas Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: Application of Basel III Capital Rules to Highly Capitalized Banks

Dear Chair Yellen, Comptroller Curry, and Chairman Gruenberg:

The banking industry is firmly committed to effective capital standards that require banks to have adequate levels of high quality capital. We understand this to be the purpose of the Basel III capital standards and the implementing regulations. We embrace that purpose.

For many banks it does not require the implementation regime of hundreds of pages of rules to convert those standards into reality. Many banks today maintain capital levels far in excess of any amounts that would be required even after a fulsome application of the complex evaluations, measurements, and calculations mandated under the Basel III regulations. For those banks, this considerable and costly work would yield no additional supervisory or safety and soundness benefits. Neither would it provide any service of any kind to any potential bank customer.

We propose that this wasteful and unnecessary effort be set aside, with no diminution in the value of the new capital standards contained in the rules. We propose that highly capitalized banks be allowed to continue to apply existing Basel I standards to the measurement and evaluation of their assets, while applying the new Basel III standards to the definition of what qualifies as regulatory capital. We propose that these highly capitalized banks be defined as those banks that have a common equity tier 1 risk-based capital ratio of at least 14%, measured by the Basel III definition of capital and the Basel I measures of assets that banks have been applying for many years. At 14% a bank would be holding twice the capital that would be required under Basel III, even after the additional 2.5% capital conservation buffer is added to the CET1 risk-based capital standard.

This proposal is not intended to reduce the amount of regulatory capital banks need. It is designed to be a regulatory relief measure for banks that can demonstrate they have significantly more regulatory capital than the new Basel III standards require. We believe that this proposal would reduce regulatory burden for these banks by reducing staff time, outside audit costs and even examination time at these highly capitalized banks. Nor does this proposal require a rewriting of the Basel III regulations; it merely identifies those banks for which the asset measurements of those requirements are superfluous.

When the international capital regime was developed in Basel, these highly capitalized banks were not envisioned. We propose that they not be unnecessarily burdened as the Basel III standards are applied. We seek the opportunity to explore this proposal with you in greater detail at the earliest opportunity, as the demands for applying the full panoply of Basel III implementation structures fast approach.

Sincerely,

American Bankers Association
Alabama Bankers Association
Alaska Bankers Association
Arizona Bankers Association
Arkansas Bankers Association
California Bankers Association
Colorado Bankers Association
Connecticut Bankers Association
Delaware Bankers Association
Florida Bankers Association
Georgia Bankers Association
Hawaii Bankers Association
Heartland Community Bankers Association
Idaho Bankers Association
Illinois Bankers Association
Illinois League of Financial Institutions
Indiana Bankers Association
Iowa Bankers Association
Kansas Bankers Association
Kentucky Bankers Association
Louisiana Bankers Association
Maine Bankers Association
Maryland Bankers Association
Massachusetts Bankers Association
Michigan Bankers Association
Minnesota Bankers Association
Mississippi Bankers Association
Missouri Bankers Association
Montana Bankers Association
Nebraska Bankers Association
Nevada Bankers Association
New Hampshire Bankers Association
New Jersey Bankers Association
New Mexico Bankers Association
New York Bankers Association
North Carolina Bankers Association
North Dakota Bankers Association
Ohio Bankers League
Oklahoma Bankers Association
Oregon Bankers Association
Pennsylvania Bankers Association
Puerto Rico Bankers Association
Rhode Island Bankers Association
South Carolina Bankers Association
South Dakota Bankers Association
Tennessee Bankers Association
Texas Bankers Association
Utah Bankers Association
Vermont Bankers Association
Virginia Bankers Association
Washington Bankers Association
West Virginia Bankers Association
Wisconsin Bankers Association
Wyoming Bankers Association