September 11, 2015

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland
baselcommittee@bis.org

Re: Comments on the Consultative Document, *Interest rate risk in the banking book*

Dear Sirs and Madams:

Bank of America Corporation ("BAC") appreciates the opportunity to comment on the Basel Committee on Banking Supervision's ("BCBS" or "the Committee") Consultative Document, *Interest rate risk in the banking book* ("IRRBB"), issued in June 2015 ("Consultative Document" or "CD"). BAC supports BCBS' efforts to "ensure that banks have appropriate capital to cover potential losses from exposures to changes in interest rates".[1] In addition, we strongly believe that banking institutions must establish interest rate risk management programs which appropriately identify, measure and manage these risks. We are concerned however that the adoption of a standardized Pillar 1 approach to measuring and monitoring interest rate risk as proposed in the CD would be ineffective in the assessment of IRRBB and would lead to substantial differences between economic and regulatory measures. Adopting a standardized Pillar 1 approach, which by definition cannot accurately capture the unique risks specific to each banking institution, will result in unintended negative consequences as it would likely change the focus of interest rate risk management from hedging economic risk to hedging regulatory capital requirements. This has the potential to increase actual economic risk, lead to a decreased resilience of the financial system and impede an effective and prudent risk management policy.

Instead, BAC supports the continued use of a Pillar 2 approach using internal measurement systems for the measurement of IRRBB. This approach should ensure that each bank has a sound risk management framework and robust controls and governance for IRRBB that is commensurate with its "nature, size and complexity as well as its structure, economic significance and general risk profile".[2] BAC does not support the incorporation of a standardized methodology into the Pillar 2 approach as it would undermine the accuracy and effectiveness of IRRBB measurement and management, and would likely result in banking institutions managing to the Pillar 1 approach.

Within the proposed standardized approach for both Pillar 1 and 2, one particular concern is the set of parameters for non-maturity deposits ("NMDs"). We agree with the Committee that "NMDs could include many diverse products where the customers respond differently to interest rate changes. Furthermore, there is no consensus on whether there is a unique, robust and prudent process for identifying core deposits that can be applied uniformly across all jurisdictions".[3] BAC believes it is impossible to have a one size fits all modeling approach for deposits given diversity across jurisdictions, products and customers. Developing standardized assumptions as a "trade-off between accuracy and simplicity" will decrease the effectiveness of risk management by the institution and reduce regulators' ability to understand the true economic risk being taken by an institution and by the banking system in aggregate. In addition, the CD proposes the disclosure of this information to investors, thus leading to the dissemination of potentially misleading information to the public. BAC has a very diverse deposit base

[1] Basel Committee, Consultative Document: Interest Rate Risk in the Banking Book (June 2015), available at http://www.bis.org/bcbs/publ/d319.htm, Executive Summary, page 1.
[2] Section III.2.3, page 38 of the CD.
[3] Section II.2.5, page 19 of the CD.

and extensive internal modeling is conducted to appropriately quantify the associated interest rate risk of this portfolio. Using standardized stability caps and pass-through floors applied only to three deposit categories minimizes the diverse behavior seen within our customer base and will fundamentally misrepresent the interest rate risk for deposits. BAC feels that the standardized deposit treatment and constraints proposed in the CD significantly understate deposit duration. Furthermore, standardizing these items at any one point in time, without considering their dynamic nature in different economic and interest rate environments is also conceptually flawed. Deposit stability and pass-through rates are constantly evolving which is why internal modeling, which can be continually adjusted based on new information, is crucial to the accurate and current measurement of interest rate risk.

BAC worked with peers in the international banking industry to identify key concerns and technical issues within the prudential regulatory framework as it relates to IRRBB. Greater detail with respect to the items described above, as well as additional concerns BAC has may be found in the comment letters submitted separately by the Joint Associations,[4] The Clearing House Association L.L.C. and the American Bankers Association. BAC strongly supports the issues raised and observations provided in these comment letters. We encourage the Committee to carefully consider those issues and observations to better address macro-prudential policy objectives and provide a more accurate reflection of interest rate risk in the CD.

Thank you for considering the concerns raised in this letter. If you have any questions or would like to discuss our concerns in greater detail, please contact Anna Shender at +1 646 855 2196 or anna.shender@baml.com.

Sincerely,

Shannon Lilly
Balance Sheet & Capital Management Executive
Bank of America Corporation

[4] Comment letter jointly submitted to the BCBS in response to the Consultative Document by the Institute of International Finance, the International Banking Federation, the Global Financial Markets Association, and the International Swaps and Derivatives Association (collectively, the "Joint Associations").