



Capital One Financial Corporation
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September 11, 2015

Electronically Submitted

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Re: Consultative Document – Interest Rate Risk in the Banking Book

Ladies and Gentlemen:

Capital One Financial Corporation (“Capital One”)¹ appreciates the opportunity to provide comments to the Basel Committee on Banking Supervision (the “Basel Committee”) in response to the consultative document on “Interest Rate Risk in the Banking Book” (the “Proposal”).² This comment letter supplements the comment letter that Capital One filed along with several other regional banks in response to the Proposal (the “Regional Bank Letter”). Capital One also participated directly or indirectly in the preparation of the comment letters filed by the American Bankers Association; The Clearing House Association L.L.C., the Securities Industry and Financial Markets Association, and the Financial Services Roundtable; and the Institute of International Finance, the International Banking Federation, the Global Financial Markets Association, and the International Swaps and Derivatives Association (collectively, the “Trade Association Letters”). Due to the importance of this topic, Capital One is filing this comment letter to express our support for positions set forth in the Regional Bank Letter and the Trade Association Letters and to supplement several critical points on this topic.

For the reasons set forth in the Regional Bank Letter and the Trade Association Letters, Capital One strongly opposes the introduction of a mandatory Pillar 1 approach

¹ Capital One Financial Corporation (www.capitalone.com) is a financial holding company whose subsidiaries, which include Capital One, N.A., and Capital One Bank (USA), N.A., had \$208.8 billion in deposits and \$310.5 billion in total assets as of June 30, 2015. Headquartered in McLean, Virginia, Capital One offers a broad spectrum of financial products and services to consumers, small businesses and commercial clients through a variety of channels. Capital One, N.A. has branches located primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia. A Fortune 500 company, Capital One trades on the New York Stock Exchange under the symbol “COF” and is included in the S&P 100 index.

² Basel Committee on Banking Supervision, *Consultative Document: Interest rate risk in the banking book* (June 2015), available at <http://www.bis.org/bcbs/publ/d319.pdf>.

for interest rate risk in the banking book (“IRRBB”). Moreover, importing a standardized calculation and disclosure framework into Pillar 2 would effectively have the same impact as introducing a standardized Pillar 1 approach, would not be a meaningful representation of any individual bank’s interest rate risk, and would cause confusion in the markets. For these reasons, Capital One urges the Basel Committee to (1) forego adopting a mandatory Pillar 1 approach for IRRBB, instead allowing national regulators to follow a robust Pillar 2 approach to supervising interest rate risk; and (2) exclude any standardized calculation of IRRBB and its disclosure from the Pillar 2 framework of the Proposal.

Further to the discussion of these matters in the Regional Bank Letter and the Trade Association Letters, we submit the following additional points with respect to the Proposal’s treatment of non-maturity deposits (“NMDs”). The proposed treatment of NMDs is far too restrictive and does not realistically represent the interest rate sensitivity of deposits. Large U.S. banks have empirical models to estimate balance and rate behavior of NMDs for interest rate risk measurements. These models are calibrated with each bank’s internal historical data and reflect characteristics specific to the products offered by the bank, behavioral characteristics of its customers, pricing strategy, competitive factors in its footprint, the interest rate environment and lending opportunities. These models are independently validated and monitored by independent second lines of defense. U.S. banking supervisors review closely these deposit models in the context of both interest rate risk measurement and the U.S. Comprehensive Capital Analysis and Review process.

Given its simplified and standardized nature to accommodate global application, a Pillar 1 approach will not reflect each bank’s specific deposit portfolio characteristics (let alone completely different deposit products across different jurisdictions), and hence actual levels of interest rate risk. A uniform measure would lead to misinformed and wrongly-placed considerations and recommendations for banks’ IRRBB management, including hedging decisions. Banks offer different types of deposit products; therefore, applying a one-size-fits-all treatment to all NMDs across all countries runs counter to how banks manage NMDs.

With respect to the specific proposed restrictions and categorizations, the Proposal makes inaccurate assumptions regarding cash flows and has standardized pass-through rate, stability, maturity, and weighted average life (“WAL”) parameters. In particular, transactional accounts characterized as demand deposit accounts in the United States are often non-interest bearing. Accordingly, the pass-through rate is by definition 0%, whereas the Proposal would impose a 25% pass-through floor for transactional accounts. The standardized global WAL assumptions also are capped effectively at 2.4 years for retail transactional accounts (3-years x 80% stability cap) and 2.1 years for retail non-transactional accounts (3-years x 70% stability cap). In the United States, the effective WAL of deposits is meaningfully longer than what is implied by the imposed caps. We expect that the combination of stability, WAL, and pass-through floors/caps would result in a misestimate of the duration of equity of over 5 years.

For retail NMDs, the proposed static net interest income (“NII”) approach, without consideration of future deposit volumes, would significantly misestimate interest rate risk because new NMDs do not come on the books at the prevailing market rates (i.e., NMDs do not reprice 100% with market rates). The proposed approach mistakenly reprices all new deposits (beyond the balance attrition from its economic-value-of-equity framework) at full market rates. Additionally, the static nature of cash flows in the proposed NII approach fails to capture any convexity in the balance sheet.

We submit that, while the proposed parameters and cash flow assumptions may accurately reflect the stability of certain types of deposits, they would significantly over- or under-estimate the stability of others. Given the diversity of deposit products within each jurisdiction and across the globe, the proposed approach simply does not work.

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Capital One appreciates the opportunity to provide these comments to the Basel Committee and respectfully ask for consideration of the recommendations and suggestions in this letter and in the Trade Association Letters. If you have any questions regarding the content of this letter or would like more information, please do not hesitate to contact the undersigned at (703) 720-3169.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Feil', with a large, stylized loop at the end.

Thomas A. Feil
Senior Vice President and Treasurer