



Washington, DC 20219

Interpretive Letter #1145

November 2014

12 CFR 3, Subpart E

September 29, 2014

Douglas Morrison
Vice President/Controller
Department Stores National Bank
701 East 60th Street, North
Sioux Falls, SD 57104

Subject: Department Stores National Bank – Exemption from Internal Ratings-Based and Advanced Measurement Approaches

Dear Mr. Morrison:

We are writing to exempt Department Stores National Bank (DSNB or the bank) from calculating its capital requirements in accordance with the *Risk-Weighted Assets—Internal Ratings-Based and Advanced Measurement Approaches* (Basel III Advanced Approaches Framework).¹ Based on the facts and circumstances discussed below, the OCC determines that application of the Basel III Advanced Approaches Framework is not appropriate for DSNB based on the bank’s risk profile and scope of operations.

Discussion

OCC regulations provide that a bank that is subject to the Basel III Advanced Approaches Framework must use that Framework to calculate its capital requirement “unless the Office of the Comptroller of the Currency determines in writing that the application of [the Framework] is not appropriate in light of the bank’s asset size, level of complexity, risk profile, or scope of operations.”² In considering this exemption, the OCC reviewed DSNB's risk profile, scope and size of operations, and current capital levels and balance sheet.

Based on the facts and circumstances reviewed by OCC supervisory staff, including an evaluation of DSNB’s risk profile, the OCC has determined that the application of the Basel III Advanced Approaches Framework to DSNB is not appropriate, subject to the conditions below. Applying the Basel III Advanced Approaches Framework to DSNB would not meaningfully enhance the banking group’s overall risk management because DSNB's risks are captured and recorded by DSNB's affiliates and those affiliates hold capital against such risks pursuant to the Basel III Advanced Approaches Framework. Furthermore, as a condition to the OCC's determination, discussed below, DSNB will be required to capture credit and operational loss

¹ 12 C.F.R., part 3, subpart E.

² 12 C.F.R. § 3.100 (b)(2).

events as specified by the Basel III Advanced Approaches Framework in the event that the Internal Ratings-Based and Advanced Measurement Approaches become appropriate for DSNB.

Conditions on Approval for the Exemption from the Basel III Capital Framework

The OCC has determined that it will exempt DSNB from the Basel III Capital Framework pursuant to 12 C.F.R. § 3.100 (b)(2),³ subject to the conditions set forth below. DSNB must meet these conditions, unless notified otherwise by the OCC:

1. DSNB will calculate its tier 1 and tier 2 capital under risk-based capital standards set forth in 12 C.F.R. part 3, subpart D, as applicable, as reported in DSNB's Consolidated Reports of Condition and Income (Call Report), and any subsequent revisions thereto.
2. DSNB is not required to file an FFIEC 101 report, but must continue to file an FFIEC 031 or 041 report.
3. DSNB must continue to capture information on credit and operational loss events as specified by 12 C.F.R. part 3, subpart E. DSNB must be able to provide the OCC with all data submitted to its parent company that the parent company uses to comply with the Basel III Advanced Approaches Framework.
4. DSNB must provide its OCC Examiner-in-Charge with at least 60 days notice of its intent to significantly deviate from or change its business plan or operations.
5. DSNB must provide an annual statement to the OCC that addresses whether the exemption is still appropriate. The annual statement, which must be provided no later than April 1st of each year, must include a description of DSNB's asset size, level of complexity, risk profile, and scope of operations in order to support the continuation of the exemption.
6. The OCC may rescind or modify this exemption if the OCC determines that application of the risk-based capital standards set forth in 12 C.F.R. part 3, subpart D, as applicable, as reported in DSNB's Consolidated Reports of Condition and Income (Call Report), and any subsequent revisions thereto are no longer appropriate for DSNB.

The above-listed conditions of this approval are conditions "imposed in writing by the OCC in connection with any action on any application, notice, or other request" within the meaning of 12 U.S.C. § 1818 and, as such, are enforceable under 12 U.S.C. § 1818.

This exemption determination is based on DSNB's information available to the OCC as of March 14, 2014. The OCC may rescind or modify this exemption if the OCC determines that any representation, submission, or information provided by DSNB is not accurate, is not fulfilled, or if DSNB fails to satisfy the conditions set forth above.

³ Id.

This exemption determination and the activities and communications by OCC employees in connection with this determination, do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the United States, any agency or entity of the United States, or any officer or employee of the United States, and do not affect the ability of the OCC to exercise its supervisory, regulatory, and examination authorities under applicable law and regulations. The non-contractual nature of the OCC's communications with DSNB or with any of its affiliates and the OCC's continuing ability to exercise its supervisory, regulatory, and examination authorities are terms and conditions that may not be waived or modified by any employee or agent of the OCC or the United States.

If you have any questions about the approval or the conditions specified above, please do not hesitate to contact Examiner-in-Charge Mark Richardson at (212) 527-3227.

Sincerely,

signed

Martin Pfinsgraff
Senior Deputy Comptroller
Large Bank Supervision