BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: June 7, 2018

To: Board of Governors

From: Vice Chairman for Supervision Quarles

Subject: Final rule on single-counterparty credit limits and related regulatory reporting proposal

Attached are a memorandum to the Board and a draft notice of final rulemaking that would implement single-counterparty credit limits (SCCL) for large U.S. bank holding companies (BHCs) and foreign banking organizations (FBOs) pursuant to section 165(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (SCCL rule).

The SCCL rule would revise the proposed rulemaking regarding SCCL issued by the Board in March 2016 (SCCL proposal) by increasing the threshold of U.S. BHCs and FBOs subject to the SCCL rule from $50 billion or more in total assets to $250 billion or more in total assets. The narrower scope of application of the SCCL rule reflects the passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act in May 2018.

For U.S. global systemically important banks (GSIBs) and other U.S. BHCs with $250 billion or more in total assets, the SCCL rule generally would impose a 25 percent of tier 1 capital limit on aggregate net credit exposure to a single counterparty. In addition, for U.S. GSIBs, the SCCL rule imposes a stricter 15 percent of tier 1 capital limit on the GSIB's aggregate net credit exposure to another GSIB or to any nonbank financial company supervised by the Board. Both limits are unchanged from the SCCL proposal.

FBOs with U.S. banking operations and $250 billion or more in total global consolidated assets would be subject to a similar SCCL framework with respect to their combined U.S. operations and with respect to any U.S. intermediate holding company with total assets of $50 billion or more. Unlike the SCCL proposal, an FBO would be able to comply with the SCCL rule with respect to its combined U.S. operations by certifying to the Board that it complies with a comparable home country regime.

In a separate package, I am also transmitting to the Board a memorandum and a proposal to implement a reporting form (FR 2590) that would provide the Federal Reserve with information to monitor a respondent firm's compliance with the SCCL rule. FR 2590 would capture the credit exposures of a respondent organization to its top 50 counterparties.

The Committee on Supervision and Regulation has been briefed on the SCCL rule and FR 2590, and I believe the attached materials are ready for the Board's consideration.

Attachments

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date:	June 7, 2018
To:	Board of Governors
From:	Staff[1]
Subject:	Final rule implementing single-counterparty credit limits for large U.S. bank holding companies and foreign banks

ACTIONS REQUESTED: Approval of the attached draft final rule that would implement the single-counterparty credit limits (SCCL) for large U.S. bank holding companies (BHCs) and foreign banking organizations (FBOs) required under section 165(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).[2] Staff also requests authority to make technical changes (e.g., wording and formatting) to the attached materials to prepare them for publication in the Federal Register.

EXECUTIVE SUMMARY:

- The Dodd-Frank Act prohibits a large U.S. BHC or FBO from having a credit exposure to any single counterparty of more than 25 percent of the capital stock and surplus of the BHC or FBO. The Dodd-Frank Act allows the Board to impose a stricter limit, if deemed necessary to mitigate risks to U.S. financial stability.
- As seen during the financial crisis, large exposures between financial firms served as conduits for contagion of financial distress. Credit exposure limits serve important prudential and financial stability goals by reducing the risk of an individual banking firm's failure or distress as well as the likelihood of distress or failure among interconnected firms.
- The Board in 2016 approved for public comment a proposal to impose an SCCL on U.S. BHCs and FBOs with $50 billion or more in total assets. The draft final rule, however, applies only to U.S. global systemically important banks (GSIBs) and to U.S. BHCs and FBOs with $250 billion or more in total assets.
    - The narrower scope of application of the draft final rule reflects the passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA).
    - EGRRCPA generally raises the scope of application of the enhanced prudential standards in section 165 of the Dodd-Frank Act from $50 billion to $250 billion in assets.

[1] Mr. Gibson, Mr. Lindo, Ms. Barger, Ms. Hewko, Ms. Horsley, Mr. Conkling, and Mr. Zhang (Division of Supervision and Regulation); Mr. Van Der Weide, Ms. Schaffer, Mr. McDonough, Ms. Nardolilli, Mr. Callanan, and Ms. Chang (Legal Division).

[2] 12 U.S.C. § 5365(e).

        - EGRRCPA, however, also authorizes the Board to apply SCCL and other enhanced prudential standards to U.S. BHCs and FBOs with total assets between $100 billion and $250 billion.
        - Staff is developing a proposal on the extent to which the Board should apply the SCCL and other enhanced prudential standards to banking firms with between $100 billion and $250 billion of assets.

- For U.S. GSIBs and other U.S. BHCs with $250 billion or more in total assets, the draft final rule generally would impose a 25 percent of tier 1 capital limit on credit exposure to a single counterparty. This limit is unchanged from the proposal.
- For U.S. GSIBs, the draft final rule would tailor application of the SCCL by imposing a stricter 15 percent of tier 1 capital limit on credit exposure to another GSIB or to any nonbank financial company supervised by the Board.
    - This more stringent limit would enhance financial stability by reducing interconnectedness among systemically important financial firms.
    - This limit is unchanged from the proposal.
- FBOs with U.S. banking operations and $250 billion or more in total global consolidated assets would be subject to a similar SCCL framework with respect to their combined U.S. operations.
    - Unlike in the proposal, an FBO would be able to comply with the combined U.S. operations SCCL by certifying to the Board that it complies with a comparable regime in its home country.
- With respect to any FBO U.S. intermediate holding company (IHC) with total assets of $50 billion or more, the basic limit structure is unchanged from the proposal.
- The draft final rule would modify the proposal to reduce regulatory burden in a number of additional ways. Significant changes include using common accounting conventions to simplify application of the limits, and modifying measurement methodologies for the credit exposure of securities financing transactions.
- As a result of these changes to the proposal and post-crisis changes in the nature and level of interconnectedness among GSIBs, staff believes that, the draft final rule is unlikely to impose material regulatory burden on large U.S. BHCs and FBOs.

BACKGROUND:

The Board first invited public comment on proposed rules to implement section 165(e) of the Dodd-Frank Act for domestic banking organizations in January 2012 and for FBOs in December 2012.[3] In March 2016,[4] the Board re-proposed the SCCL rule in order to address comments received on the original proposed rules and in light of intervening changes to the national bank lending limits rule[5] and the introduction by the Basel Committee on Banking Supervision (BCBS) of a large exposures standard.[6]

As required under the Dodd-Frank Act at the time, the 2016 proposed rule would have applied the SCCL to any U.S. BHC or FBO with $50 billion or more in total consolidated assets. Subject to an eighteen-month transition period, EGRRCPA recently amended section 165 of the Dodd-Frank Act to restrict the scope of application of most enhanced prudential standards (including SCCL) to U.S. GSIBs and to U.S. BHCs and FBOs with $250 billion or more in total consolidated assets. Under EGRRCPA, however, the Board may apply an SCCL or any other enhanced prudential standard to U.S. BHCs or FBOs with between $100 billion and $250 billion in total consolidated assets, if the Board makes certain safety and soundness or financial stability findings.

Staff plans to present to the Board at a later date a proposal on application of enhanced prudential standards to U.S. BHCs and FBOs with total consolidated assets between $100 billion and $250 billion. Until such time, staff recommends that the draft final rule apply only to U.S. GSIBs and to U.S. BHCs and FBOs with total consolidated assets of $250 billion or more.

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[3] Board of Governors of the Federal Reserve System, Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies, 77 Fed. Reg. 594 (Jan. 5, 2012); Board of Governors of the Federal Reserve System, Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies, 77 Fed. Reg. 76,628 (Dec. 28, 2012).

[4] Board of Governors of the Federal Reserve System, Single-Counterparty Credit Limits for Large Banking Organizations, 81 Fed. Reg. 14,328 (Mar. 16, 2016).

[5] Office of the Comptroller of the Currency, Lending Limits, 78 Fed. Reg. 37,930 (June 25, 2013).

[6] Basel Committee on Banking Supervision, Supervisory Framework for Measuring and Controlling Large Exposures (April 2014). The large exposures standard establishes an international single-counterparty credit limit framework for internationally active banks.

SUMMARY OF THE DRAFT FINAL RULE:

The Board received nearly 30 comments in response to the 2016 proposed rule from individuals, banking organizations, industry and trade groups, and public interest groups.[7] The significant comments are discussed in the relevant sections concerning the final rule below. (See pages 8–13 of the Federal Register notice for a detailed discussion of the comments.)

A. SCCL Requirements for Domestic Banking Organizations

1. Overall Limits

Under the draft final rule, the aggregate net credit exposure of a covered U.S. BHC (covered company) to a single counterparty is subject to one of two tailored limits summarized in Table 1 below.

Table 1 – Single-Counterparty Credit Limits Applicable to Covered Companies

Category of Covered Company	Applicable Credit Exposure Limit
[1] Covered companies that are not U.S. GSIBs	Aggregate net credit exposure to a counterparty cannot exceed 25 percent of a covered company's tier 1 capital
[2] U.S. GSIBs (major covered companies)	Aggregate net credit exposure to a major counterparty* cannot exceed 15 percent of a major covered company's tier 1 capital
	Aggregate net credit exposure to other counterparties cannot exceed 25 percent of a major covered company's tier 1 capital

* A "major counterparty" would be defined as a major covered company, any FBO that is a GSIB, and any nonbank financial company supervised by the Board.

Some commenters questioned whether the use of tier 1 capital as a covered company's SCCL capital base was appropriate or authorized under the statute. These commenters generally urged the Board to use a broader total regulatory capital base for SCCL similar to the capital base used by the Board in its Regulation W and by the Office of the Comptroller of the Currency in its national bank lending limits. In staff's view, basing the SCCL for covered companies on tier 1 capital is a permissible interpretation of the broad, undefined phrase "capital stock and surplus" in the Dodd-Frank Act. Moreover, use of tier 1 capital would be consistent with the salutary post-crisis focus on higher-quality forms of capital for banking firms. Tier 1 capital is a

[7] Board staff met with a number of commenters to discuss issues relating to the proposed rule, and summaries of these meetings may be found on the Board's public website.

more credible measure of a covered company's ability to absorb losses as a going concern. A key lesson learned from the financial crisis was that market participants significantly discounted the going concern value of hybrid capital instruments and subordinated debt issued by banks—instruments that no longer count as tier 1 capital but continue to count in the total regulatory capital of banking firms. Accordingly, limiting the SCCL capital base to tier 1 capital would substantially promote the resiliency of covered companies and overall U.S. financial stability.

A few commenters also questioned the appropriateness of the stricter 15 percent of tier 1 capital limit for credit exposures of major covered companies to major counterparties. In particular, these commenters expressed the view this lower SCCL may not be necessary in light of other post-crisis regulatory reforms adopted by the Board. By contrast, a few other commenters expressed the view that the proposal would continue to permit an excessively high level of credit exposure among the largest banking firms. These commenters argued that the 15 percent limit on a major covered company's exposure to another large financial firm was too high and did not sufficiently take into account the greater social costs of failure of such firms as compared to smaller firms.

In staff's view, the 15 percent of tier 1 capital SCCL for credit exposures of major covered companies to major counterparties is justified based on the heightened systemic risk presented by exposures between GSIBs. This stricter limit is supported by a quantitative analysis conducted by staff in March 2016 (White Paper).[8] The White Paper explains that inter-GSIB exposures present a heightened degree of systemic risk because GSIBs typically are engaged in common business lines and have common counterparties and funding sources. As a result, factors that would likely cause the distress of a major counterparty would also likely adversely affect a major covered company.

The White Paper uses data on the default correlation between systemically important financial institutions (SIFIs),[9] as well as data on the default correlation between SIFIs and a sample of non-SIFI companies, to calibrate a credit risk model that is used to set the SCCL for

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[8] Board of Governors of the Federal Reserve System, Calibrating the Single-Counterparty Credit Limit between Systemically Important Financial Institutions (Mar. 4, 2016), https://www.federalreserve.gov/aboutthefed/boardmeetings/sccl-paper-20160304.pdf.

[9] For purposes of the White Paper, SIFIs include GSIBs and nonbank financial companies designated by FSOC for supervision by the Board.

exposures of a major covered company to a major counterparty. The model attempts to equalize the total risk incurred on such credit extensions to the total risk incurred on credit extensions by a major covered company to a non-major counterparty. The resulting model produces an SCCL for exposures of major covered companies to major counterparties in line with the draft final rule's limit of 15 percent of tier 1 capital.

Some commenters contended that the SCCL on exposures by major covered companies to major counterparties should reflect a reduced probability of default of such major counterparties resulting from a range of post-crisis reforms. Staff notes, however, that SCCL are, by their nature, simple and transparent limits that do not depend on the precise probability of default of any counterparty. As the SCCL are designed to protect against damage from a counterparty default, they assume the default of the counterparty in question, regardless of the likelihood of such an event. Accordingly, it would be inconsistent with the general motivation for SCCL to differentiate based on potential differences in counterparty credit quality.

2. Definitions of "Covered Company" and "Counterparty"

Like the proposal, the SCCL in the draft final rule would apply to the credit exposure of a covered company and all of its subsidiaries to a single counterparty and all of its affiliates. The proposal would have included as a subsidiary of a covered company any company that was directly or indirectly controlled by the covered company for purposes of the BHC Act, and would have included as an affiliate of a counterparty any company connected to the counterparty through 25 percent or more voting equity or total equity ownership. A number of commenters asked the Board to move to a financial consolidation standard to define a covered company and a counterparty. These commenters argued that BHC Act control is overly broad and opaque, and creates a significant amount of complexity and burden for covered companies. These commenters also argued that a 25 percent ownership standard is too low for defining the affiliate of a counterparty, and would create substantial burden for counterparties of covered companies.

Staff has analyzed these comments carefully and believes that moving to a financial consolidation standard for the definitions of "subsidiary" and "affiliate" would be appropriate. Use of a financial consolidation standard in these contexts would reduce burden on covered companies and their counterparties, and would better align the SCCL final rule's core definitions with relevant accounting standards and the Board's regulatory capital, liquidity, and swap margin rules. Accordingly, for purposes of the draft final rule, a "subsidiary" of a covered company

would include any company that is consolidated with the covered company on financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP), the International Financial Reporting Standards, or other similar standards.[10] Similarly, an "affiliate" of a counterparty would be defined as any company that is consolidated with the counterparty under applicable accounting standards.

3. Calculation of Exposure Amounts

Like the proposal, the draft final rule applies the SCCL to a covered company's aggregate net credit exposure to a counterparty (rather than its aggregate gross credit exposure). The key difference between gross credit exposure and net credit exposure is that a covered company's net credit exposure would take into account any available credit risk mitigants (e.g., collateral, guarantees, and credit or equity derivatives) that meet requirements in the draft final rule. The draft final rule would apply a "risk-shifting" approach to most credit risk mitigants. Under the risk-shifting approach, a covered company would reflect an eligible credit risk mitigant by reducing its exposure to the direct counterparty but increasing its exposure to the collateral issuer or credit protection provider on a dollar-for-dollar basis.

Under the draft final rule, as under the proposal, a covered company generally would be permitted to calculate its exposure to a derivative counterparty using any methodology that the covered company is authorized to use under the Board's risk-based capital rules, including internal models. The proposal would have required firms to apply a standardized approach to calculate the credit exposure amount of a securities financing transaction. Some commenters argued that the proposed standardized approach would significantly overstate exposures from some securities financing transactions, including in particular transactions that involve the covered company transferring and receiving securities at inception of the transaction. In response to comments, the draft final rule would adopt an exposure measurement methodology for securities financing transactions that includes the use of any method authorized under the Board's capital rules, including internal models. As noted by commenters, the methodology that would have applied to securities financing transactions under the proposal may overstate exposures from some transactions. In addition, the more risk-sensitive treatment of derivatives

[10] Under GAAP, a company generally would consolidate an entity in which it holds a majority voting interest or over which it has the power to direct the most significant economic activities, to the extent it also holds a variable interest in the entity.

relative to securities financing transactions under the proposal could have artificially incentivized firms to engage in derivatives that are economically equivalent to securities financing transactions.

4. Aggregating Exposures to Connected Counterparties

Under the proposed rule, a covered company would have been required to aggregate exposures to one or more counterparties that are "economically interdependent" or connected by certain control relationships. The purpose of these proposed requirements was to limit a covered company's overall credit exposure to two or more counterparties where the underlying risk of one counterparty's financial distress or failure could cause the financial distress or failure of another counterparty. Commenters urged the Board to eliminate or reduce the scope of application of these requirements about connected counterparties, arguing that they were vague and would be very burdensome to apply. The draft final rule would retain the basic structure of the economic interdependence and control tests for connecting counterparties, but would contain important modifications to address concerns raised by commenters and to make the tests clearer.

First, under the draft final rule, a covered company would only be required to assess compliance with the economic interdependence and control tests in cases in which the company has an exposure to a counterparty that exceeds 5 percent of the company's tier 1 capital. Second, the draft final rule clarifies the factors that would require a firm to aggregate counterparties under the two tests. Third, the draft final rule would allow firms to request a determination from the Board that two counterparties are not economically interdependent or controlled, even if one or more regulatory factors are met.

5. Exemptions and exclusions

The draft final rule, like the proposal, would not apply to (i) credit exposures to the U.S. government that are directly and fully guaranteed as to principal and interest (including credit exposures to Fannie Mae and Freddie Mac while in conservatorship); (ii) intraday credit exposures to a counterparty; and (iii) trade exposures to qualifying central counterparties. In response to comments, the draft final rule also would not apply to (i) any credit transaction with the Bank for International Settlements, the International Monetary Fund, or the World Bank; and (ii) any credit transaction with the European Commission or the European Central Bank.

B. SCCL Requirements for FBOs and U.S. IHCs

The proposal would have applied the SCCL to the combined U.S. operations of any FBO with $50 billion or more in total global consolidated assets and separately to any FBO's U.S. IHC with $50 billion or more in total consolidated assets. The proposed SCCL for the U.S. IHC would have been measured against the IHC's capital, and the proposed SCCL for the FBO's combined U.S. operations (including U.S. branches and agencies) would have been measured against the capital base of the entire FBO.

Consistent with EGRRCPA, the draft final rule would apply only to FBOs with $250 billion or more in total global consolidated assets, and their subsidiary U.S. IHCs (covered foreign entities). (As noted above, staff will present to the Board at a later date a proposal on application of enhanced prudential standards to FBOs with total global consolidated assets between $100 billion and $250 billion.)

Commenters argued that the application of an SCCL to the combined U.S. operations of an FBO where the FBO is subject to a comparable regime in its home country would be unnecessary, burdensome, and inconsistent with national treatment under the Dodd-Frank Act. Upon further analysis, staff believes that the application of the proposed SCCL to the combined U.S. operations of a foreign bank would have limited benefits if the global consolidated FBO were subject to comparable SCCL by its home country supervisor. Accordingly, the draft final rule would allow an FBO to comply with the rule for its combined U.S. operations by certifying to the Board that it meets, on a consolidated basis, an SCCL established by its home country supervisor that is consistent with the BCBS large exposure standard. This approach is consistent with the Board's application of stress testing enhanced prudential standards to FBOs.

Under the draft final rule, the SCCL for U.S. IHCs of covered FBOs would fall into three tailored tiers, similar to the proposed rule. These limits are summarized in Table 2 below.

Table 2 – Single-Counterparty Credit Limits Applicable to U.S. IHCs of FBOs

Category of U.S. IHC	Applicable Credit Exposure Limit
[1] U.S. IHCs that have total consolidated assets of at least $50 billion but less than $250 billion	Aggregate net credit exposure of the U.S. IHC to a counterparty cannot exceed 25 percent of the IHC's total regulatory capital plus the balance of its ALLL not included in tier 2 capital
[2] U.S. IHCs that have $250 billion or more in total consolidated assets but less than $500 billion in total consolidated assets	Aggregate net credit exposure of the U.S. IHC to a counterparty cannot exceed 25 percent of the IHC's tier 1 capital
[3] U.S. IHCs that have $500 billion or more in total consolidated assets (major U.S. IHCs)	Aggregate net credit exposure of a major U.S. IHC to a major counterparty cannot exceed 15 percent of the IHC's tier 1 capital Aggregate net credit exposure of a major U.S. IHC to other counterparties cannot exceed 25 percent of the IHC's tier 1 capital

The draft final rule would apply to U.S. IHCs with between $50 billion and $250 billion in total consolidated assets, even if the U.S. IHC is also a domestic BHC. Each of these IHCs is controlled by an FBO with more than $250 billion of total global consolidated assets, the new EGRRCPA asset threshold for enhanced prudential standards. Staff plans to conduct further analysis regarding the scope of application of the SCCL framework and other enhanced prudential standards to U.S. IHCs as part of its broader implementation of EGRRCPA.

The other major elements of the SCCL framework for FBOs generally would be the same as the requirements for domestic covered BHCs. Commenters on the FBO provisions of the proposal generally raised the same issues as commenters on the U.S. BHC provisions of the proposal, such as the definitions of covered company and counterparty and the aggregation of counterparties based on economic interdependence and control relationships. To address these concerns, the draft final rule for FBOs generally would contain the same modifications as those described above for domestic BHCs.

C. Compliance Timeline

The proposed rule would have required covered companies and FBO U.S. IHCs with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance-sheet foreign exposures to comply within one year from the effective date of the final rule, and all other covered companies and U.S. IHCs to comply within two years of the effective date of the

final rule. Commenters requested more time to comply with the proposal. In response to comments, the draft final rule would require U.S. and foreign GSIBs to comply by January 1, 2020, and all other covered companies and covered foreign entities to comply by July 1, 2020. This extended transition period should allow firms sufficient time to construct an infrastructure for monitoring and reporting their credit exposures to the Federal Reserve, and for conforming any excess credit exposures.

D. Impact Analysis

A quantitative impact study conducted by Board staff on the 2016 proposal concluded that banking firms would generally have been able to meet the proposed SCCL with modest adjustments. The study estimated that the total amount of covered companies' credit exposure in excess of the limits in the proposed rule would be less than $100 billion, and that the overwhelming majority of this excess credit exposure would be credit exposure of major covered companies to major counterparties. The draft final rule contains a number of recommended modifications that would reduce this estimated impact. In particular, the draft final rule would allow covered companies and U.S. IHCs to use internal models to measure exposures from securities financing transactions, which was one of the major sources of excess exposure. Moreover, the narrower scope of application of the draft final rule, including the narrower definitions of a covered company and a counterparty, would further reduce its impact. Finally, recent staff analysis shows that covered companies and U.S. IHCs have very few single-counterparty exposures above 5 percent of their tier 1 capital. Thus, they are unlikely to exceed the credit limits of the draft final rule. As a result, staff believes the draft final rule is unlikely to have a material impact on covered companies and U.S. IHCs.

Importantly, the draft final rule provides covered companies and U.S. IHCs with a compliance period of 18 to 24 months, which should allow firms sufficient time to construct an infrastructure for monitoring and reporting their credit exposures to the Federal Reserve, and for conforming any excess credit exposures. Covered firms will have a number of relatively low-cost mechanisms for reducing any residual excess credit exposures, including shifting exposures to other less-concentrated counterparties, increasing margin requirements for some derivatives or securities financing transactions, or increasing use of derivative transactions that are cleared by qualifying central counterparties.

CONCLUSION:

Staff recommends that the Board adopt the attached draft final rule to establish SCCL for U.S. BHCs and FBOs with $250 billion or more in total consolidated assets. Staff also requests authority to make technical and minor changes to the attached materials in order to prepare them for publication in the Federal Register.

Attachment

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date:	June 7, 2018
To:	Board of Governors
From:	Staff [1]
Subject:	Proposal to implement the Single-Counterparty Credit Limits Report (FR 2590) and associated notice requirements

ACTIONS REQUESTED: Approval to (1) invite public comment on a proposal to implement the Single-Counterparty Credit Limits Report (FR 2590) and associated notice requirements in connection with the draft final rule implementing single-counterparty credit limits under consideration by the Board and (2) delegate to staff authority to make minor and technical changes (e.g., formatting) to the proposal in order to prepare it for publication in the Federal Register.

EXECUTIVE SUMMARY:

The FR 2590 would provide the Federal Reserve with information to monitor a covered company's or a covered foreign entity's compliance with the single-counterparty credit limits ("SCCL") set forth in the draft final SCCL rule the Board is considering ("SCCL rule"). The SCCL rule requires each covered company and covered foreign entity to calculate its aggregate net credit exposure, gross credit exposure, and net credit exposure to a counterparty using the methods in this rule, and sets limits on the aggregate net credit exposure each such company may have to the counterparty. The report would capture the credit exposures of a respondent organization to its top 50 counterparties in accordance with the SCCL rule. The FR 2590 respondent panel would comprise U.S. global systemically important bank holding companies ("GSIBs") and other U.S. bank holding companies with $250 billion or more in total consolidated assets, foreign banking organizations ("FBOs") with U.S. banking operations and $250 billion or more in total

[1] Mr. Gibson, Mr. Lindo, Ms. Hewko, Ms. Priest, Ms. Horsley, Ms. Ayouch, Ms. Robertson, Mr. Conkling, and Mr. Zhang (Division of Supervision and Regulation); Mr. Van Der Weide, Ms. Schaffer, Mr. McDonough, Ms. Nardolilli, Ms. Kidd, Mr. Callanan, and Ms. Chang (Legal Division).

consolidated assets, and U.S. intermediate holding companies ("IHCs") of such FBOs with total consolidated assets of $50 billion or more.

In addition, certain provisions in the SCCL rule permit a covered company or covered foreign entity to request temporary relief from specific requirements of the rule. The proposal would seek public comment on notice requirements pertaining to any such requests.

DISCUSSION:

As demonstrated during the 2007–2008 financial crisis, large credit exposures, particularly between financial institutions, can spread financial distress and undermine financial stability. Section 165(e) of the Dodd-Frank Act directs the Board to prescribe regulations that prohibit covered companies and covered entities from having a credit exposure to any unaffiliated company that exceeds 25 percent of the capital stock and surplus of the covered company or covered foreign entity, or such lower limit as the Board may determine by regulation to be necessary to mitigate risks to the financial stability of the United States.[2] A covered company is any U.S. bank holding company ("BHC") identified as a GSIB under the Board's Regulation Q and any other U.S. BHC with total consolidated assets of $250 billion or more. A covered foreign entity is any entity that is part of the combined U.S. operations of a FBO with total consolidated assets of $250 billion or more and any U.S. IHC of such FBO with total consolidated assets of $50 billion or more.

The Board issued a Notice of Proposed Rulemaking in March 2016 to apply SCCL to covered companies and covered entities. Concurrent with its consideration of the proposed FR 2590, the Board is considering whether adopt the SCCL rule in final form. The SCCL rule would prohibit any covered company that is not a GSIB from having an aggregate net credit exposure to an unaffiliated counterparty in excess of 25 percent of its tier 1 capital. A GSIB would be prohibited from having aggregate net

[2] 12 U.S.C. 5365(e).

credit exposure to any major counterparty in excess of 15 percent of its tier 1 capital and would face a 25 percent of tier 1 capital limit for other counterparties.[3] The SCCL rule would apply similar SCCL to FBOs with respect to their combined U.S. operations. However, the SCCL rule would allow an FBO to comply with the rule for its combined U.S. operations by certifying to the Board that it meets, on a consolidated basis, an SCCL established by its home country supervisor that is consistent with the Basel Committee on Banking Supervision ("BCBS") large exposure standard.

The SCCL rule also would apply SCCL to U.S. IHCs of FBOs according to three tailored tiers. A U.S. IHC with total consolidated assets of at least $50 billion but less than $250 billion would be prohibited from having aggregate net credit exposure to a single counterparty in excess of 25 percent of the company's total regulatory capital plus the balance of its allowance for loan and lease losses not included in tier 2 capital (capital stock and surplus). A U.S. IHC with total consolidated assets of at least $250 billion but less than $500 billion would be prohibited from having aggregate net credit exposure to a single counterparty in excess of 25 percent of the U.S. IHC's tier 1 capital. A U.S. IHC with $500 billion or more in total consolidated assets would be prohibited from having aggregate net credit exposure to (i) a major counterparty in excess of 15 percent of the U.S. IHC's tier 1 capital, and (ii) any other counterparty in excess of 25 percent of the U.S. IHC's tier 1 capital.

The FR 2590 report would allow the Board to monitor firms' compliance with the SCCL rule. The reporting form first asks for general information about the respondent organization (e.g., the respondent organization's full legal name, the amount of its capital stock and surplus, and whether the respondent would be considered a major covered company or major covered foreign entity under the rule). The form also would permit any respondent that is an FBO to certify that it is subject to and complies with an SCCL

[3] Under the SCCL rule, a "major counterparty" would be defined as a major covered company, any FBO that is a GSIB, and any nonbank financial company supervised by the Board.

established by its home country supervisor that is consistent with the BCBS large exposure standard. The form then solicits data required to calculate the respondent organization's credit exposures, and requires identification of counterparties by name and by entity type (e.g., sovereigns, securitizations). The form would require each respondent organization to report its top 50 counterparties.

The SCCL rule would require U.S. and foreign GSIBs to comply by January 1, 2020, and all other covered companies and covered foreign entities to comply by July 1, 2020. As a result, this proposal would require respondents that are U.S. and foreign GSIBs to begin filing the FR 2590 as of the end of the first quarter of 2020 and all other respondents to being filing the FR 2590 as of the end of the third quarter of 2020. The FR 2590 would be mandatory and would be filed quarterly, unless the Board determines and notifies the covered company or covered foreign entity in writing that more frequent reporting is required. In addition, the data collected on this form would be kept confidential under exemption 4 of the Freedom of Information Act, which protects from disclosure trade secrets and commercial or financial information (5 U.S.C. 552(b)(4)).

In addition, certain provisions in the SCCL rule permit a covered company or covered foreign entity to request temporary relief from specific requirements of the rule. Specifically, the SCCL rule permits a covered company or covered foreign entity to request temporary relief from requirements to aggregate one or more counterparties even if one or more factors indicating economic interdependence or control relationships are met, subject to certain conditions, including that such relief be in the public interest and consistent with the purpose of the rule.[4] The SCCL rule also permits a covered company or covered foreign entity that is not in compliance with the requirements of the rule to request a special temporary credit exposure limit exemption from the Board to permit continued credit transactions with that counterparty, based upon a finding that those transactions are necessary or appropriate to preserve the safety and soundness of the

[4] See sections 252.76(b)(3), 252.76(c)(2), 252.176(b)(3), and 252.176(c)(2) of the SCCL rule.

covered company or U.S. financial stability.[5] The proposal would seek public comment on the notice requirements pertaining to these requests.[6]

The Office of Management and Budget (OMB) has delegated to the Board the authority to review and approve collection of information requests and requirements pursuant to the PRA.[7] The Board's review of the collection of information should include: (1) an evaluation of the need for the collection of information, (2) a description of the information to be collected, (3) a plan for the collection of information, (4) a specific estimate of burden, (5) an evaluation of whether burden may be reduced by use of information technology, (6) a test of the collection through a pilot program, if appropriate, and (7) a plan for the efficient management and use of the information to be collected.[8]

The information that would be collected by the proposed FR 2590 and the notices required in connection with requests for temporary relief are necessary to enable the Board to implement and ensure firms' compliance with the SCCL rule. The proposed form and instructions contain a description of the proposed collection, and the proposed instructions provide information on where and when the FR 2590 reports should be submitted. Copies of the draft form, instructions, and OMB Supporting Statement[9] for the FR 2590 are available upon request to the Office of the Secretary.

Staff estimates that the total annual burden for FR 2590, including one-time implementation costs, is estimated to be 238,333 hours for all respondent organizations.

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[5] See sections 252.78(c)(2) and 252.178(c)(2) of the SCCL rule.

[6] As noted, exemption 4 of the Freedom of Information Act protects from disclosure trade secrets and commercial or financial information (5 U.S.C. 552(b)(4)). A firm that requests that information in these notices be kept confidential in accordance with section (b)(4) can request confidential treatment under the Board's rules regarding confidential treatment of information at 12 CFR 261.15.

[7] See 5 CFR 1320.16.

[8] 5 CFR 1320.8(a).

[9] The "OMB Supporting Statement" is a document submitted by an agency to the Office of Management and Budget describing in detail a collection of information subject to the Paperwork Reduction Act.

The ongoing average annual burden for respondent organizations is approximately 255 hours per quarterly submission. Staff estimates that there would be 1 respondent for each of the three types of request for temporary relief and the burden associated with these would be 10 hours per respondent, for a total of 30 hours. The total cost to the firms is estimated to be $13,358,565.

The Board must invite public comment on the need for the information in the proposal, the estimated burden, suggestions for improvements to the quality, utility, and clarity of the information, and suggestions to minimize the burden on the respondents, and evaluate any comments received. The attached draft Federal Register notice invites comments on these matters.

CONCLUSION: Staff recommends that the Board propose to implement the FR 2590 report and associated notice requirements in connection with the SCCL rule under consideration by the Board, invite public comment on the proposal, and provide staff the authority to make minor and technical changes (e.g., formatting) to the attached proposal and notice in order to prepare the documents for publication in the Federal Register.