Proposal:	1814(AG65) Regulatory Capital Rule: Risk-Based Capital Surcharges GSIB BHCs; Systemic Risk (FR Y-15)
Description:	

Comment ID:	156309
From:	Jared Johnson
Proposal:	1814(AG65) Regulatory Capital Rule: Risk-Based Capital Surcharges GSIB BHCs; Systemic Risk (FR Y-15)
Subject:	Risk-Based Capital Surcharges for Global Systemically Important BHCs; Systemic Risk Report (FR Y-15)

Comments:

Date: Nov 15, 2023
Proposal: Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15) [R-1814]
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Your comment: Dear Federal Reserve Board,
I want to provide a comment on questions 7 and 8 of the proposal.
Answer to questions 7 and 8
In cases where the GSIB surcharge requirement increases, the current rule provides two years between the measurement of the systemic risk indicators and this increase. Meanwhile, in cases where the GSIB surcharge is reduced, the reduced surcharge goes into effect one year after the measurement of the systemic risk indicators. Problematically, if a firm reduces the systemic risk indicators between the original measurement of a GSIB surcharge increase and the increase going into effect, the current rule allows for the higher requirement to never go into effect.

The current rule provides too much time between the measurement of systemic risk and the enactment of requirements and inappropriately treats asymmetrically increases and decreases in the surcharge. The ability of a firm to "cure" its increase in the GSIB surcharge provides firms with the incentive to increase their systemic risk exposure for a year, as long as they are able to reduce it in the next year. Unfortunately, systemic risk does not take years off. Firms should be provided with clear incentives that higher systemic risk will result in higher capital requirements and should be required to have capital to match their systemic risk as quickly as feasible.

The proposed rule revision of the method 2 surcharge that would narrow surcharge increments to 0.1 percentage points (which is appropriate and should remain in the final rule) reduces any cliff effects that would require that firms have more time to plan. Also, firms are generally able to control and manage their systemic risk indicators as measured under method 2, as they depend only on their own systemic risk exposure (and not on international denominators, like the method 1 requirement). This is

unlike the stress capital buffer requirement, to which the current capital rule provides firms with much less time to adjust, despite the stress capital buffer requirement displaying meaningful changes year-on-year and being based on models that firms have limited visibility into.

For these reasons, it is appropriate to provide a much smaller period between the measurement of systemic risk indicators and the method 2 surcharge going into effect. Aligning the effective date of the method 2 surcharge with the stress capital buffer requirement would be appropriate, as it would provide one date a year where GSIBs capital requirements would change. So, I believe the Federal Reserve should set the method 2 surcharge that reflect a year's end systemic risk indicators on the date in the following year in which the stress capital buffer requirement is revised. The effective date for a change in the method 1 based surcharge would need to continue to be later, as the Basel denominators are not available until later, but this should have little materiality as the method 2 surcharge is generally the binding surcharge on US GSIBs.

Sincerely,
Jared Johnson