BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: July 16, 2015

To: Board of Governors

From: Governor Tarullo DKT

Subject: Draft Final Rule – Risk-based Capital Surcharges for Systemically Important U.S. Bank Holding Companies

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Attached are (1) a memorandum to the Board and draft Federal Register notice of final rulemaking that would establish a risk-based capital surcharge for the most systemically important U.S. bank holding companies pursuant to section 165 of the Dodd-Frank Act and (2) amendments to the proposed FR Y-15 systemic risk report to align its definitions to those in the draft final rule. The final rule is based upon the international standard adopted by the Basel Committee on Banking Supervision, augmented to address risks to U.S. financial stability. The surcharge methodology generally would result in significantly higher surcharges than those determined using the international standard and would also reflect a bank holding company's use of short-term wholesale funding.

The final rule would require a U.S. top-tier bank holding company subject to the advanced approaches risk-based capital rule to calculate a measure of its systemic importance and would identify a subset of those companies as global systemically important bank holding companies (GSIBs) based on that measure. Each GSIB would calculate a surcharge that reflects its systemic risk profile. The final rule would provide strong incentives for GSIBs to maintain sufficient amounts of high-quality capital relative to their risk weighted assets in order to avoid limitations on capital distributions and certain discretionary bonus payments. The GSIB surcharge would be phased in from January 1, 2016 to year-end 2018, becoming fully effective on January 1, 2019. A full explanation of the draft final rule is included in the attached memorandum.

Staff seeks the Board's approval of the attached draft final rule, and requests authority to make technical and minor changes to the document prior to publication in the Federal Register.

The Committee on Bank Supervision has been briefed on the draft final rule and approved moving it forward. I believe the attached materials are ready for the Board's consideration.

Attachments

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date:	July 16, 2015
To:	Board of Governors
From:	Staff[1]
Subject:	Draft final rule regarding risk-based capital surcharges for systemically important U.S. bank holding companies

ACTIONS REQUESTED

Approval of the attached draft final rule to establish risk-based capital surcharges for U.S.-based global systemically important banking organizations, amendments to the proposed FR Y-15 to align definitions contained in the proposed FR Y-15 with definitions contained in the draft final rule, and an extension of the comment period for the amendments to the proposed FR Y-15. In addition, staff seeks approval to make technical and minor wording changes (e.g., formatting) to the draft final rule in order to prepare it for publication in the Federal Register.

EXECUTIVE SUMMARY

- **Identification of a GSIB**: The draft final rule establishes a methodology to identify global systemically important bank holding companies in the United States (GSIBs) based on five categories that are correlated with systemic importance – size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity. Advanced approaches bank holding companies (those with $250 billion or more in consolidated total assets or $10 billion or more in consolidated total on-balance-sheet foreign exposures) must determine annually whether they qualify as a GSIB. Based on the most recent available data, eight U.S. bank holding companies would be identified as GSIBs today.

- **GSIB surcharge amount**: A firm identified as a GSIB must calculate its GSIB surcharge under two methods and be subject to the higher surcharge. The first method (method 1) is the same method used to identify whether the firm is a GSIB. The second method (method 2) uses similar inputs, but differs in two key respects. First, substitutability is replaced with the use of short-term wholesale funding. Second, method 2 is calibrated in a manner that generally will result in surcharge levels for GSIBs that are higher than those calculated under method 1. The higher calibration of method 2 is based on an assessment of the capital necessary to equalize the expected systemic impact from the failure of a GSIB as compared to the expected systemic impact from the failure of a large, non-GSIB, as described in the white paper discussed below. Staff estimates that surcharge amounts across GSIBs using the

[1] Messrs. Gibson, Van Der Weide, Lindo, Climent, Bleicher, Savignac, and Ley and Mmes. Hewko, Horsley, and Kirkpatrick Taylor (Division of Banking Supervision and Regulation) and Mr. Alvarez, Mmes. Schaffer and Graham, Mr. Buresh, and Ms. Watkins (Legal Division).

most recent available data range from 1.0 to 4.5 percent of the GSIB's risk-weighted assets. Because the final rule relies on individual GSIB data that will change over time, the currently estimated surcharges may not reflect the surcharges that would apply to a GSIB at the time that the rule becomes effective or thereafter.

- **Implementation and timing**: The GSIB surcharge increases a GSIB's capital conservation buffer under the Board's regulatory capital rule. Under that rule, all banking organizations must hold a minimum ratio of 4.5 percent of common equity tier 1 capital to risk-weighted assets, and must hold an additional 2.5 percent capital conservation buffer in order to avoid limitations on capital distributions and certain discretionary bonus payments. This draft final rule requires that a GSIB increase its capital conservation buffer by the amount of its GSIB surcharge to avoid such limitations. Consistent with the implementation of the capital conservation buffer, the GSIB surcharge will be phased in beginning on January 1, 2016 and be fully effective on January 1, 2019.
- **Changes from the proposal**: The draft final rule adopts the proposed rule, with adjustments to:
    - Narrow the scope of application, requiring only advanced approaches bank holding companies to calculate annually their method 1 score;
    - Measure a GSIB's method 2 score as relative to fixed measures of systemic importance, rather than as relative to annually-updated measures of systemic importance of global firms, and incorporate an average exchange rate over a three-year period, rather than use daily spot rate; and
    - Adjust several elements of the short-term wholesale funding calculation used in method 2.
- **Calibration and impact analysis**: The draft final rule largely adopts the proposed GSIB surcharge calibration and provides additional detail on the calibration methodology in the white paper attached to the draft final rule. Staff estimates that almost all of the eight firms currently identified as GSIBs would already meet their fully phased-in GSIB surcharges.
- **GSIB surcharge in DFAST / CCAR**: The draft final rule does not add a GSIB surcharge to the post-stress minimum risk-based capital ratios for purposes of DFAST or CCAR.

INTRODUCTION

Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) directs the Board to establish enhanced prudential standards, including enhanced risk-based capital standards, for bank holding companies with total consolidated assets of $50 billion or more in order to prevent or mitigate risks to U.S. financial stability posed by these institutions. The standards must increase in stringency based on several factors, including the size and risk characteristics of these institutions.[2]

[2] See 12 U.S.C. 5365(a)(1)(B).

On December 9, 2014, the Board invited comment on a proposed rule that would establish risk-based capital surcharges for GSIBs. The proposal was designed to reduce the risks posed by a GSIB to U.S. financial stability by helping to ensure that the GSIB has sufficient capital to continue its operations during times of stress and to protect the financial system from the spillover risks of its failure. The proposal incorporated a measure of a GSIB's short-term wholesale funding reliance, as that reliance can cause liquidity runs that threaten the firm's solvency and impose negative externalities on the broader financial system. The proposal was consistent with, and more stringent than, the GSIB surcharge framework established by the Basel Committee on Banking Supervision (BCBS).

The Board received 21 comments on the proposal from banking organizations, trade associations, public interest groups, and individuals. While some commenters expressed support for higher capital standards for GSIBs, several commenters criticized aspects of the proposal. For instance, several expressed concern regarding the calibration of the GSIB surcharges. Other commenters expressed concern that the proposed method for calculating surcharges relative to an annually-updated measure of other large banking organizations limits the ability of a firm to reduce its GSIB surcharge by reducing its systemic risk profile. In addition, several commenters provided views on the proposed inclusion and measurement of a firm's reliance on short-term wholesale funding.[3]

The draft final rule would adopt the proposal with modifications to address some of the concerns raised by commenters, as discussed below.

OVERVIEW OF THE DRAFT FINAL RULE

A. Identification of a GSIB

The proposed methodology to identify a GSIB used five equally-weighted categories that are correlated with systemic importance – size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity – and subdivided these categories into twelve systemic indicators.[4] For each indicator, a firm would divide its own measure of each systemic indicator

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[3] See Appendix I for a thematic summary of comments received on the proposal.

[4] These categories are consistent with the categories set forth in section 165 of the Dodd-Frank Act. 12 U.S.C. 5365. They are also consistent with the factors considered by the BCBS, as well as those considered by the Financial Stability Oversight Council in identifying nonbank financial

by an aggregate global measure of that indicator.[5] The firm's method 1 score was the sum of its weighted indicator scores. A bank holding company with a method 1 score of at least 130 basis points was identified as a GSIB.

While several commenters expressed support for the risk-sensitive nature of the approach, others questioned the proposed equal weights assigned to the categories, particularly the equal weight given to size. The equal weighting was proposed because each of the five categories contributes to the effect the failure of a firm will have on financial stability, and the particular score a firm will calculate for a given category will depend on its unique circumstances relative to the group of firms as a whole. Accordingly, the draft final rule continues to equally weight these categories. The preamble notes that the Board's intent is to reassess the regime at periodic intervals.

Other commenters expressed views on the proposed measurement of a bank holding company's systemic indicator score as a proportion of the annual aggregate global indicator amount (relative approach). As discussed below, the draft final rule would maintain the relative approach for method 1, but would adopt a fixed approach for method 2.

The proposal would have required each U.S.-based top-tier bank holding company with total consolidated assets of $50 billion or more to perform a calculation on an annual basis to determine whether it was a GSIB. The final rule limits the scope of this calculation requirement to only bank holding companies that qualify as advanced approaches bank holding companies (those with $250 billion or more in consolidated total assets or $10 billion or more in consolidated total on-balance-sheet foreign exposures). This revised approach reflects the view that firms that do not meet the definition of an advanced approaches bank holding company are

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companies supervised by the Board. See "Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement," available at www.bis.org/publ/bcbs255.htm; 12 U.S.C. 5323.

[5] The aggregate global measure would be published by the Board and would include the indicator values of the 75 largest U.S. and foreign banking organizations, as measured by the BCBS, and any other banking organization that BCBS includes in its sample total for that year.

likely to pose less systemic risk to U.S. financial stability than firms that meet the advanced approaches threshold.

(See Attachment pp. 9-17).

B. Computing the Applicable GSIB Surcharge

Under the proposal, a GSIB was required to calculate its GSIB surcharge under two methods and was subject to the higher corresponding surcharge. A GSIB would have calculated its method 1 score as described above. The proposed method 2 score (and surcharge) was based on the same inputs, except that substitutability was replaced by the use of short-term wholesale funding. Generally, a higher surcharge was assigned under method 2 than under method 1 because staff calibrated method 2 to more fully offset the systemic footprint of the GSIBs, as described in more detail in the white paper.

1. Relative versus Absolute Measure

As discussed above, in computing its proposed method 1 and method 2 scores, a GSIB would have divided its own measure of each systemic indicator by an aggregate global measure of that indicator. Several commenters argued that this approach would limit a firm's incentive to reduce its GSIB surcharge by reducing its systemic risk profile. Similarly, several commenters suggested that using a single-day exchange rate to convert aggregate global indicator amounts to U.S. dollars could overstate the systemic importance of U.S. GSIBs when the U.S. dollar is strong.

The draft final rule maintains the relative approach for calculating a GSIB's method 1 score, but adopts a fixed approach for calculating the method 2 score. As a result, a bank holding company will be identified as a GSIB using the relative approach, but its method 2 surcharge will be calculated using the fixed approach. Use of a relative approach for identifying GSIBs is appropriate, as any changes in a bank holding company's systemic indicator scores would be driven by the bank holding company's systemic footprint relative to its peers, rather than changes in broader, macroeconomic conditions. Use of a fixed approach for computing the method 2 surcharge, which will generally be higher than the method 1 surcharge and thus the applicable surcharge for firms, is appropriate in order to increase the predictability of a GSIB's surcharge and to address the incentive concerns identified by commenters.

To implement the fixed approach for method 2, a GSIB would multiply its systemic indicator scores by fixed coefficients that are based on the average of the aggregate global indicator amounts for each indicator for year-end 2012 and 2013. The aggregate global indicator amounts are converted from euros to U.S. dollars using an exchange rate equal to the average daily foreign exchange spot rates over three years (2011-2013). The use of multiple years to calculate the aggregate global indicator amounts and the foreign exchange rate helps to smooth volatility. In addition, the draft final rule combines the constant elements of the proposed method 2 formula into a single coefficient for simplicity.

(See Attachment pp. 21-43).

2. Use of Short-term Wholesale Funding in Method 2

As noted above, the proposed method 2 replaced the substitutability category with a measure of a firm's reliance on short-term wholesale funding. The proposed rule identified types of short-term wholesale funding sources, which generally included funding sources with remaining maturities of less than one year, and applied a weighting to those sources depending on the remaining maturity of the funding and the asset class of any collateral securing the funding.

While some commenters supported the short-term wholesale funding measure, other commenters argued that liquidity concerns were sufficiently addressed through other regulatory initiatives, such as the liquidity coverage ratio (LCR). However, the GSIB surcharge is designed so that a firm's surcharge increases with the impact on financial stability that a firm's failure would have. Use of short-term wholesale funding is a key determinant of the impact. While other regulatory measures, including the LCR, help to ensure that firms are in a stable funding position, they do not eliminate the risk to financial stability posed by the use of short-term wholesale funding by very large institutions.

Commenters also provided views on the weights of short-term wholesale funding sources. For instance, a number of commenters noted that the weights for types of short-term wholesale funding sources focused solely on the liability side of the balance sheet, and might overstate the financial stability risk of short-term wholesale funding liabilities when those liabilities are used to fund highly liquid assets.

In response to these comments, the draft final rule reduces the weight assigned to certain unsecured short-term wholesale funding sources as compared to the proposal. The maximum weight for wholesale deposits from non-financial clients is reduced from 50 percent to 25 percent, whereas the maximum weight for other types of unsecured short-term wholesale funding is reduced from 100 percent to 75 percent. This reduction is intended to recognize the fact that the LCR generally requires larger banking firms to invest wholesale deposits and other unsecured types of short-term wholesale funding in relatively liquid assets.

Several commenters asserted that liabilities associated with both firm and customer short positions should be excluded from the short-term wholesale funding measure. In light of the comments received, the draft final rule applies a lower weighting to firm short positions because the risk of runs from firm short positions is mitigated by a firm's ability to control the closeout of the short position.[6] However, the draft final rule adopts the proposed treatment for client short positions because the closeout of such positions is ultimately controlled by a firm's clients and thus, exposes the firm to higher levels of liquidity risk.

Commenters asserted that advances from Federal Home Loan Banks (FHLB) should be excluded from the definition of short-term wholesale funding. The draft final rule maintains the proposed treatment of FHLB borrowings, in order to maintain parity of treatment between funding received from FHLBs and funding from other counterparties.

Commenters also asserted that centrally cleared securities financing transactions should be subject to a lower weight or excluded from the definition of short-term wholesale funding. While there may be some financial stability benefits associated with central clearing of securities financing transactions, central clearing does not eliminate the risks posed by securities financing transactions. Accordingly, the final rule maintains the proposed treatment.

On July 9, 2015, the Board published for comment a proposal to modify the FR Y-15, which is the Board's form for collecting data needed to compute the GSIB surcharge, among other things. The modification to this form would introduce a new schedule, Schedule G, to capture a banking organization's use of short-term wholesale funding. The proposed definition of "short-term wholesale funding" and weighting were based on the proposed GSIB surcharge rule. The draft final rule proposes to incorporate updates into proposed Schedule G of the FR Y-15 to align it with the definition of, and weights assigned to, short-term wholesale funding in the draft final rule. Specifically, proposed Schedule G would be revised to (1) move three line items to

[6] Specifically, the draft final rule excludes firm short positions involving Level 1 and Level 2A liquid assets from the short-term wholesale funding definition, and assigns a weight of 25 percent to firm short positions involving Level 2B liquid assets or securities that do not qualify as high-quality liquid assets. Level 1, Level 2A, Level 2B, and high-quality liquid assets are defined with reference to the Board's liquidity coverage ratio at 12 CFR part 249.

different tiers, (2) add an item to capture firm short positions, (3) add two automatically-calculated items, (4) add one item derived from the FR Y-9C, (5) delete two items, and (6) collect customer short positions as part of the secured funding totals. The comment period for the proposed changes to the FR Y-15 would also be extended to 60 days after the publication of the final rule in the Federal Register, to allow commenters the opportunity to comment on the full proposal, including changes to the short-term wholesale funding measure adopted in this final rule. ***(See Attachment pp. 26-29, 59-73).***

C. Calibration and Impact

As noted above, the surcharges determined under proposed method 2 would likely result in higher surcharges than those determined under method 1.

In connection with the draft final rule, staff has developed a white paper that supplements the calibration discussion in the proposed and final rules, including the rationale for the surcharge levels that apply under the draft final rule. As explained in the white paper, the final rule is calibrated to help ensure that the expected impact on financial stability from the failure of a GSIB is equal to the expected impact from the failure of a large non-GSIB reference bank holding company. The white paper notes that a GSIB's failure would cause greater harm to financial stability than the failure of a banking organization that is not a GSIB. Thus, if all banking organizations were subject to the same risk-based capital standards and had similar probabilities of default, GSIBs would impose far greater systemic risks than non-GSIBs. The white paper explains how staff calibrated GSIB risk-based capital surcharges that would reduce each GSIB's probability of failure by an amount necessary to offset its higher negative impact on the financial system. Further, section 165 of the Dodd-Frank Act directs the Board to establish enhanced prudential standards for bank holding companies with $50 billion or more in total consolidated assets, including by establishing risk-based capital requirements.[7] The white paper notes that the draft final rule achieves that goal by subjecting each GSIB to a capital surcharge, since a larger capital buffer allows a firm to absorb larger losses without failing.

Commenters also argued that the proposed rule did not include a meaningful analysis of the costs of the proposal, including the potential effects on customers, market participants, the wider economy, and on U.S. GSIBs' competitiveness compared to that of foreign GSIBs. The preamble acknowledges that, as a result of the final rule, some bank holding companies will

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[7] See 12 U.S.C. 5365.

likely be required to raise additional capital or retain earnings to hold capital in excess of their buffers, potentially reducing return on equity. However, the GSIB surcharge is designed to address the costs imposed on financial markets and the real economy by financial crises. By imposing additional capital standards, the draft final rule increases the resiliency of key U.S. financial institutions, reducing the likelihood of their failure and protecting U.S. taxpayers.

In addition, the immediate costs of the draft final rule on individual institutions are significantly mitigated by the implementation timeframe. The table below uses data as of year-end 2014 to estimate the GSIB surcharges that would apply to the eight U.S. bank holding companies that would be identified as GSIBs under the draft final rule.[8] Based upon these estimates, seven of the eight firms currently identified as GSIBs under the draft final rule already meet their GSIB surcharges on a fully phased-in basis, and all such firms are on their way to meeting their surcharges over the three-year phase-in period. Because the final rule relies on individual GSIB data that will change over time, the currently estimated surcharges may not reflect the surcharges that would apply to a GSIB at the time that the rule becomes effective or thereafter.

Surcharge Estimates for U.S. GSIBs

Bank Holding Company	**Estimated GSIB Surcharge**
Bank of America Corporation	3.00%
The Bank of New York Mellon Corporation	1.00%
Citigroup Inc.	3.50%
The Goldman Sachs Group, Inc.	3.00%
JPMorgan Chase & Co.	4.50%
Morgan Stanley	3.00%
State Street Corporation	1.50%
Wells Fargo & Company	2.00%

(See Attachment pp. 29-43).

[8] These estimates were generated using BCBS aggregate global indicator amounts from year-end 2012 and 2013, 2014 FR Y-15 data, and short-term wholesale funding data estimated using liquidity data collected through the supervisory process and averaged across 2014.

D. Implementation and Timing

1. Implementation

Under the proposal, the GSIB surcharge increased a GSIB's capital conservation buffer.[9] For example, a firm with a GSIB surcharge of 3.0 percent would have been required to maintain a common equity tier 1 capital ratio in excess of 10.0 percent (the sum of the minimum common equity tier 1 capital ratio of 4.5 percent plus the 2.5 percent capital conservation buffer plus the 3.0 percent GSIB surcharge).[10] The draft final rule adopts the GSIB surcharge as an augmentation of the capital conservation buffer as proposed. ***(See Attachment pp. 46-51).***

2. Timing

Under the proposal, the GSIB surcharge would have been phased in beginning on January 1, 2016, and would become fully effective on January 1, 2019, on the same implementation timeline as the capital conservation buffer. That is, in 2016, a GSIB would have been required to hold capital in excess of its minimum requirements plus 25 percent of its 2.5 percent capital conservation buffer plus 25 percent of its applicable GSIB surcharge in order to avoid limitations on capital distributions and certain discretionary bonus payments. The draft final rule adopts this aspect of the proposal without change. ***(See Attachment pp. 46-51).***

E. Other Modifications

The proposed rule would also have revised the terminology used to identify the firms subject to enhanced supplementary leverage ratio standards[11] to ensure consistency in the scopes of application between those standards and the GSIB framework. The draft final rule finalizes this aspect of the proposal without change.

CONCLUSION

Staff recommends that the Board approve the attached draft final rule to establish risk-based capital surcharges for U.S.-based global systemically important banking organizations,

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[9] Under the Board's regulatory capital rule, all banking organizations must hold a minimum ratio of 4.5 percent of common equity tier 1 capital to risk-weighted assets, and must hold an additional 2.5 percent capital conservation buffer in order to avoid restrictions on capital distributions and certain discretionary bonus payments. A firm's capital conservation buffer is divided into quartiles, each associated with increasingly stringent limitations on capital distributions and bonus payments as the capital conservation buffer approaches zero.

[10] This example assumes that the GSIB's countercyclical capital buffer amount was zero.

[11] See 12 CFR part 217.11.

amendments to the proposed FR Y-15 to align definitions contained in the proposed FR Y-15 to definitions contained in the draft final rule, and an extension of the comment period for the amendments to the proposed FR Y-15. Staff also seeks approval to make technical and minor changes to the draft final rule in order to prepare it for publication in the Federal Register.

Attachments

Appendix I

Overview of comments on the proposed rule

The Board received 21 written public comments on the December 2014 notice of proposed rulemaking to implement a capital surcharge for U.S. top-tier bank holding companies identified as global systemically important banks (GSIBs). Commenters included banking organizations, trade associations, public interest advocacy groups, individuals, and other interested parties.

Some commenters also met with Board staff to discuss the proposal.[12] Community and regional banking organizations and public interest advocacy groups expressed support for higher capital standards for the largest and most complex U.S. firms, and many supported incorporating a measure of a GSIB's reliance on short-term wholesale funding into its systemic risk score. Large banking organizations and their trade associations expressed concern regarding a variety of aspects of the proposed GSIB surcharge. Specific comments are summarized below.

<u>Calibration of the GSIB surcharge</u>

Several commenters argued that the proposal did not provide sufficient empirical analysis to support the calibration of the surcharge levels under method 2 (including the doubling of the indicator scores, the weightings of the individual short-term wholesale funding components and related scalar), and that the analysis conducted to inform the proposal and the individual elements within it should be made publicly available. Some commenters contended that the proposal did not empirically justify the departure from international standards and that without such an analysis it would not be possible to judge whether it would achieve its stated objectives.

<u>Use of relative versus absolute measures for determining a firm's systemic importance</u>

Several commenters argued that using a market-share approach for determining a firm's systemic indicator scores (that is, comparing a firm's systemic indicators to the aggregate systemic indicators of the 75 largest global banks) limits the ability of the firm to observe a meaningful reduction in its GSIB surcharge based on a reduction of its systemic risk profile if the global denominators were to decrease proportionally to the firm's actions. Commenters

[12] Summaries of these meetings are available on the Board's website.

suggested that an approach that uses fixed measures for determining systemic importance could address this issue.

Effect of exchange rate fluctuations on GSIB scores

Many commenters contended that the proposed methodology could be unduly affected by exchange rate fluctuations because of the conversion of the aggregate indicators from euros into U.S. dollars using a single-day exchange rate. Commenters expressed concern that as a result, the scores of U.S. GSIBs could increase when the U.S. dollar strengthens, without an actual increase in those firms' systemic importance. To alleviate this effect several commenters suggested replacing the single-day exchange rate with a five-year rolling average exchange rate.

Interaction with other regulatory measures

Several commenters believed that the proposed calibration should take more account of existing and forthcoming regulatory reforms (for example, the LCR, the NSFR, and the enhanced supplementary leverage ratio standards), some of which are already more stringent for U.S. banking organizations than those implemented in other jurisdictions.

Cost of the higher surcharge

Several commenters argued that the proposal did not sufficiently analyze the costs of higher surcharges for U.S. GSIBs relative to other firms subject only to the framework developed by the Basel Committee on Banking Supervision (BCBS framework) and did not sufficiently take into account the impact on firms, customers and lending to the real economy. Some commenters argued that the proposal should reflect the belief that U.S. GSIBs pose less systemic risk to the U.S. economy than their counterparts in other countries because the combined assets of U.S. GSIBs represent a comparatively smaller share of domestic GDP.

Use of non-public information collected by foreign supervisory authorities

Some commenters contended that the global aggregate denominators used for the GSIB designation and calibration would rely on non-transparent data collected by foreign authorities, and that the names of the banking organizations in the sample and their respective regulators were not publicly disclosed, which gave rise to concerns of commenters about transparency issues and data quality concerns.

Inclusion of the short-term wholesale funding score

Several commenters argued that the short-term wholesale funding score should not be reflected in the GSIB surcharge, asserting that measures such as the LCR and NSFR were specifically designed to address liquidity concerns. Some commenters argued that short-term wholesale funding should not be included in the surcharge calibration because it is not included in the BCBS framework.

Weighting of individual short-term wholesale funding components

Many commenters argued that the weights ascribed to various sources of short-term wholesale funding did not accurately reflect market behavior in stress scenarios and would be inconsistent with the treatment under related liquidity reforms such as the LCR and NSFR, in particular for non-operational wholesale deposits, brokered deposits, excess custody deposits and firm shorts, among others. Several commenters suggested that rather than focusing on the liability side of a GSIB's balance sheet, the short-term wholesale funding metric should also take into account the amount of high-quality liquid assets that firms are required to hold against different funding sources under the LCR.

Interaction with Comprehensive Capital Analysis and Review (CCAR)

Several commenters argued that the GSIB surcharge should not be included in CCAR in the form of post-stress capital ratios because the surcharge differs from regulatory minima and should be usable in periods of stress, and because CCAR is already sufficiently stringent on firms with significant trading operations. One commenter argued that CCAR and Dodd-Frank Act stress testing should incorporate the distribution limitation function of the capital conservation buffer generally and as augmented by the GSIB surcharge.

Inclusion of resolvability as a determining factor in the GSIB regime

Some commenters argued that a firm's resolvability and organizational complexity should be taken into account when calibrating the GSIB surcharge, in particular as a GSIB's resolution plans are expected to become progressively more developed in the future. Other commenters argued that the GSIB surcharge should be inversely proportional to the difficulty of resolving an institution (that is, firms without credible resolution plans should face a higher GSIB surcharge relative to those with credible resolution plans).

Complexity of regulatory regime

Some commenters expressed concern that the proposal would add to the growing complexity of regulatory requirements generally. Other commenters expressed concerns about overreliance on risk-based capital ratios, asserting that such overreliance can have a distortive effect on incentives and suggesting that greater emphasis on the leverage ratio could mitigate this concern.