

Billing Codes: 4810-33-P; 6210-01-P; 6714-01-P

DEPARTMENT OF TREASURY

Office of the Comptroller of the Currency

12 CFR Parts 3 and 50

Docket ID OCC-2018--0037

RIN 1557-AE56

FEDERAL RESERVE SYSTEM

12 CFR Parts 217, 249

[Regulations Q, WW; Docket No. X]

RIN [XX]

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 324, 329

RIN [XX]

Proposed changes to applicability thresholds for regulatory capital and liquidity requirements

AGENCY: Office of the Comptroller of the Currency, Treasury; the Board of Governors of the Federal Reserve System; and the Federal Deposit Insurance Corporation.

ACTION: Notice of proposed rulemaking with request for public comment.

SUMMARY: The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) are inviting comment on a proposal that would establish risk-based categories for determining applicability of requirements under the regulatory capital rule, the liquidity coverage ratio rule, and the proposed net stable funding ratio rule for large U.S. banking organizations. The proposal would establish four categories of standards and apply tailored capital and liquidity requirements for banking organizations subject to each category. The proposal is consistent with a separate proposal issued by the Board that would apply certain prudential standards for large U.S. banking organizations based on the same categories. The proposal would not amend the capital and liquidity requirements currently applicable to an intermediate holding company of a

foreign banking organization or its subsidiary depository institutions. This proposal also would not amend the requirements applicable to Federal branches or agencies of foreign banking organizations.

DATES: Comments must be received by January 22, 2019.

ADDRESSES: Comments should be directed to:

OCC: You may submit comments to the OCC by any of the methods set forth below.

Commenters are encouraged to submit comments through the Federal eRulemaking Portal or e-mail, if possible. Please use the title “**Proposed Changes to Thresholds Applicable to Regulatory Capital and Liquidity Requirements**” to facilitate the organization and distribution of the comments. You may submit comments by any of the following methods:

- **Federal eRulemaking Portal—“regulations.gov”:** Go to *www.regulations.gov*.

Enter “Docket ID OCC-2018-0037” in the Search Box and click “Search.” Click on “Comment Now” to submit public comments. Click on the “Help” tab on the Regulations.gov home page to get information on using Regulations.gov, including instructions for submitting public comments.

- **E-mail:** *regs.comments@occ.treas.gov*.

- **Mail:** Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency, 400 7th Street, SW, suite 3E-218, Washington, DC 20219.

- **Hand Delivery/Courier:** 400 7th Street, SW, suite 3E-218, Washington, DC 20219.

- **Fax:** (571) 465-4326.

Instructions: You must include “OCC” as the agency name and “Docket ID OCC-2018-0037” in your comment. In general, the OCC will enter all comments received into the docket and publish them on the Regulations.gov website without change, including any business or personal information that you provide such as name and address information, e-mail addresses, or phone numbers. Comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not include any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

You may review comments and other related materials that pertain to this rulemaking action by any of the following methods:

- **Viewing Comments Electronically:** Go to www.regulations.gov. Enter “Docket ID OCC-2018-0037” in the Search box and click “Search.” Click on “Open Docket Folder” on the right side of the screen and then “Comments.” Comments and supporting materials can be filtered by clicking on “View all documents and comments in this docket” and then using the filtering tools on the left side of the screen. Click on the “Help” tab on the Regulations.gov home page to get information on using Regulations.gov. The docket may be viewed after the close of the comment period in the same manner as during the comment period.

- **Viewing Comments Personally:** You may personally inspect comments at the OCC, 400 7th Street, SW, Washington, DC 20219. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling (202) 649-6700 or, for persons who are hearing impaired, TTY, (202) 649-5597. Upon arrival, visitors will be required to present valid government-issued photo identification and submit to security screening in order to inspect comments.

Board: You may submit comments, identified by Docket No. [XX], by any of the following methods:

- **Agency Web Site:** <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- **E-mail:** regs.comments@federalreserve.gov. Include docket number in the subject line of the message.
- **FAX:** (202) 452-3819 or (202) 452-3102.
- **Mail:** Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551. All public comments are available from the Board's Web site at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, unless modified for technical reasons. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room 3515, 1801 K Street NW (between 18th and 19th Street NW), Washington, DC 20006 between 9:00 a.m. and 5:00 p.m. on weekdays.

FDIC: You may submit comments, identified by RIN 3064-AE90, by any of the following methods:

- **Agency Web Site:** <http://www.FDIC.gov/regulations/laws/federal/propose.html>. Follow instructions for submitting comments on the Agency web site.
- **Mail:** Robert E. Feldman, Executive Secretary, Attention: Comments/Legal ESS, Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429.

- **Hand Delivered/Courier:** Comments may be hand-delivered to the guard station at the rear of the 550 17th Street Building (located on F Street) on business days between 7:00 a.m. and 5:00 p.m.

- **E-mail:** comments@FDIC.gov. Include RIN 3064-AE90 on the subject line of the message.

- **Public Inspection:** All comments received must include the agency name and RIN 3064-AE90 for this rulemaking. All comments received will be posted without change to <http://www.fdic.gov/regulations/laws/federal/>, including any personal information provided. Paper copies of public comments may be ordered from the FDIC Public Information Center, 3501 North Fairfax Drive, Room E-1002, Arlington, VA 22226 by telephone at (877) 275-3342 or (703) 562-2200.

FOR FURTHER INFORMATION CONTACT:

OCC: Mark Ginsberg, Senior Risk Expert, or Venus Fan, Risk Expert, Capital and Regulatory Policy, (202) 649-6370; James Weinberger, Technical Expert, Treasury & Market Risk Policy, (202) 649-6360; or Carl Kaminski, Special Counsel, Henry Barkhausen, Counsel, or Daniel Perez, Attorney, Chief Counsel's Office, (202) 649-5490, or for persons who are hearing impaired, TTY, (202) 649-5597, Office of the Comptroller of the Currency, 400 7th Street, SW, Washington, DC 20219.

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Financial Analyst, (202) 452-3442, Division of Supervision and Regulation; or Benjamin McDonough, Assistant General Counsel (202) 452-2036; Asad Kudiya, Counsel, (202) 475-6358; Mary Watkins, Senior Attorney (202) 452-3722; Alyssa O'Connor, Attorney, (202) 452-3886, Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), (202) 263-4869.

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I. Background and summary of proposal

In 2013, the Office of the Comptroller of the Currency (OCC), the Board of Governors of

the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) adopted a revised regulatory capital rule (capital rule) that, among other things, addressed weaknesses in the regulatory framework that became apparent in the 2007-2009 financial crisis.¹ The capital rule strengthened the capital requirements applicable to banking organizations² supervised by the agencies by improving both the quality and quantity of regulatory capital and increasing the risk-sensitivity of capital requirements. In addition, to improve the banking sector's resiliency to liquidity stress and to improve the ability of large and internationally active banking organizations to monitor and manage liquidity risk, the agencies adopted the liquidity coverage ratio (LCR) rule in 2014,³ and the Board implemented enhanced liquidity standards⁴ for the largest depository institution holding companies. Companies subject to the LCR rule must maintain an amount of high-quality liquid assets (HQLA) equal to or

¹ The Board and OCC issued a joint final rule on October 11, 2013 (78 FR 62018) and the FDIC issued a substantially identical interim final rule on September 10, 2013 (78 FR 55340). On April 14, 2014 (79 FR 20754), the FDIC adopted the interim final rule as a final rule with no substantive changes.

² Banking organizations subject to the agencies' capital rule include national banks, state member banks, insured state nonmember banks, savings associations, and top-tier bank holding companies and savings and loan holding companies domiciled in the United States not subject to the Board's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (12 CFR part 225, appendix C), excluding certain savings and loan holding companies that are substantially engaged in insurance underwriting or commercial activities or that are estate trusts, and bank holding companies and savings and loan holding companies that are employee stock ownership plans.

³ See 79 FR 61440 (October 10, 2014), codified at 12 CFR part 50 (OCC), 12 CFR part 249 (Board), and 12 CFR part 329 (FDIC).

⁴ These enhanced liquidity standards require a bank holding company to establish and maintain robust liquidity risk management practices, perform internal stress tests for determining the adequacy of their liquidity resources, and maintain a buffer of highly liquid assets to cover cash flow needs under stress. See 12 CFR part 252.

greater than their projected total net cash outflows over a prospective 30 calendar-day period.⁵ Finally, on June 1, 2016, the agencies invited comment on a proposed rule to implement a net stable funding ratio (NSFR) requirement.⁶ The proposed NSFR rule would establish a quantitative metric to measure and help ensure the stability of the funding profile of a banking organization over a one-year time horizon.

Many of the agencies' current rules, including the capital rule, the LCR rule, and the proposed NSFR rule, differentiate among banking organizations based on one or more risk indicators, such as total asset size and foreign exposure. Specifically, the capital rule categorizes banking organizations into two groups: (i) banking organizations subject solely to the generally applicable risk-based capital rules, which have total consolidated assets of less than \$250 billion and total on-balance sheet foreign exposure of less than \$10 billion (standardized approach banking organizations),⁷ and (ii) banking organizations with \$250 billion or more in total consolidated assets or \$10 billion or more in total on-balance sheet foreign exposure, together with depository institution subsidiaries of banking organizations meeting those thresholds

⁵ For depository institution holding companies with \$50 billion or more, but less than \$250 billion, in total consolidated assets and less than \$10 billion in on-balance sheet foreign exposure, the Board separately adopted a modified LCR requirement, described further below. 12 CFR 249 subpart G.

⁶ "Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements; Proposed Rule," 81 FR 35124 (June 1, 2016). For depository institution holding companies with \$50 billion or more, but less than \$250 billion, in total consolidated assets and less than \$10 billion in total on-balance sheet foreign exposure, the Board separately proposed a modified NSFR requirement.

⁷ See 12 CFR part 217, subparts D & E (Board); 12 CFR part 3 (OCC), Subparts D & E; 12 CFR part 324, subparts D & E (FDIC).

(advanced approaches banking organizations).⁸ Standardized approach banking organizations must calculate risk-weighted assets using the standardized approach⁹ and calculate a leverage ratio that measures regulatory capital relative to on-balance sheet assets. Advanced approaches banking organizations must use both the internal models-based advanced approaches and the standardized approach to determine their risk-based capital ratios. They also must calculate a supplementary leverage ratio, which measures regulatory capital relative to on-balance sheet and certain off-balance sheet exposures, in addition to the leverage ratio described above. In addition, when calculating their regulatory capital levels, advanced approaches banking organizations are required to include most elements of accumulated other comprehensive income (AOCI) in regulatory capital, which better reflects the loss-absorbing capacity of a banking organization at a specific point in time, but can also result in regulatory capital volatility and require more sophisticated capital planning and asset-liability management.

Additional capital requirements apply to U.S. GSIBs beyond those applicable to advanced approaches banking organizations, which are intended to increase their resiliency as the largest, most interconnected and systemically risky banking organizations. First, a risk-based capital surcharge applies to U.S. GSIBs at the top-tier bank holding company level, calibrated to reflect their systemic footprint. Second, an enhanced supplementary leverage ratio standard applies to U.S. GSIBs and their insured depository institution subsidiaries.¹⁰

⁸ See 12 CFR 217.1(c), 12 CFR 217.100(b) (Board); 12 CFR 3.1(c), 12 CFR 3.100(b) (OCC); 12 CFR 324.1(c), 12 CFR 324.100(b) (FDIC). U.S. global systemically important bank holding companies (GSIBs) form a sub-category of advanced approaches banking organizations.

⁹ Also referred to as the “generally applicable” risk-based capital requirements.

¹⁰ The FDIC and OCC apply an enhanced supplementary leverage ratio standard to insured depository institution subsidiaries of U.S. top-tier bank holding companies with more than \$700 billion in total consolidated assets or more than \$10 trillion in total assets under custody, while the Board’s regulation applies these requirements to insured depository institution

With respect to the liquidity rules, the LCR rule also distinguishes between banking organizations based on total asset size and foreign exposure. The full LCR requirement generally applies to banking organizations that meet the advanced approaches thresholds and to their subsidiary depository institutions with total consolidated assets of \$10 billion or more.¹¹ The Board's regulations also apply a less stringent, modified LCR requirement to depository institution holding companies that do not meet the advanced approaches thresholds but have more than \$50 billion in total consolidated assets. The proposed NSFR requirement would apply to the same banking organizations as the current LCR requirement. Similarly, under the NSFR proposal, the Board proposed to apply a less stringent, modified NSFR requirement to the same depository institution holding companies that are subject to the modified LCR requirement.

The scoping criteria of the regulations described above rely on a definition of advanced approaches banking organization that the agencies introduced in 2007 in connection with the adoption of the advanced approaches risk-based capital rule. The thresholds established by the definition were designed to include the largest and most internationally active banking organizations. In implementing the liquidity rules, the agencies relied on these same thresholds, recognizing the applicable banking organizations have balance sheet compositions, off-balance sheet activities, and funding profiles that lead to larger and more complex liquidity profiles.

subsidaries of U.S. GSIBs. There is currently no difference between the holding companies identified by these regulations, and the OCC has proposed to amend its regulation to reference the Board's U.S. GSIB definition. *See* Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Certain of Their Subsidiary Insured Depository Institutions; Total Loss-Absorbing Capacity Requirements for U.S. Global Systemically Important Bank Holding Companies, 83 FR 17317 (proposed April 19, 2018).

¹¹ *See* 12 CFR 249.1.

The agencies are proposing modifications to their capital and liquidity rules that would revise the criteria for determining the prudential standards that apply to large banking organizations operating in the United States (the proposal).¹² Specifically, the agencies are proposing to (i) amend the scope of certain aspects of the regulatory capital rule and the LCR rule; and (ii) re-propose the scope of the NSFR rule. The proposal would update the current regulatory distinction between advanced approaches and standardized approach banking organizations and further tailor the capital and liquidity requirements applicable to large banking organizations according to risk-based indicators. Specifically, for banking organizations with total consolidated assets of \$100 billion or more, the proposal would establish four categories of standards based on size, cross-jurisdictional activity, weighted short-term wholesale funding, off-balance sheet exposure, and nonbank assets. Section II.B of this Supplementary Information section below discusses the proposed scoping criteria for each of these categories, and section II.C describes the capital and liquidity requirements proposed for each category of standards.¹³

¹² This proposal is part of the agencies' ongoing effort to review their respective capital and liquidity requirements to determine how best to tailor their application based on the size, complexity, and overall risk profile of banking organizations. Consistent with these efforts, the agencies also intend to issue a proposal to implement section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), which requires the agencies to revise the capital requirements applicable to certain banking organizations with less than \$10 billion in total consolidated assets. *See* Pub. L. No. 115-174, 132 Stat. 1296 (2018).

¹³ Separately, the Board is requesting comment on a proposed rule (the Board-only proposal) that would tailor certain prudential standards for large domestic banking organizations based on the same categories. In particular, and consistent with section 401 of EGRRCPA, the Board-only proposal would further tailor the application of existing prudential standards relating to liquidity, risk management, stress testing, and single-counterparty credit limits. In order to appropriately tailor the prudential requirements, the Board-only proposal incorporates the four categories of prudential standards for banking organizations described in this proposal. In addition, the Board-only proposal would apply prudential standards to certain large savings and loan holding companies (other than those substantially engaged in insurance underwriting or

The agencies note that there are currently additional outstanding notices of proposed rulemaking that make reference to the advanced approaches thresholds to set the scope of application, relating to simplifications to the agencies' capital rule (issued October 2017)¹⁴ and a standardized approach to calculating derivative exposures (issued October 2018).¹⁵ For purposes of considering and commenting on those pending notices, the requirements that would apply to "advanced approaches banking organizations" under those notice of proposed rulemaking would be included as Category I and II standards under this proposal. For purposes of considering and commenting on those pending notices, the requirements that would apply to "advanced approaches banking organizations" under those outstanding notices of proposed rulemaking would be included as Category I and II standards under this proposal. Furthermore, the agencies note that they are still considering amendments to their capital rule that would take into account final Basel III reforms adopted by the Basel Committee on Banking Supervision (BCBS) in December of 2017.¹⁶

II. Proposal

Post-crisis regulatory reforms, which include the agencies' capital and liquidity standards, have resulted in significant enhancements to financial stability and the safety and

commercial activities), using the same categories, to further their safety and soundness. The agencies encourage commenters to review this proposal together with the Board-only proposal.

¹⁴ See "Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996." 82 FR 49984 (October 27, 2017).

¹⁵ See "Regulatory Capital Rule: Standardized Approach for Calculating the Exposure Amount of Derivative Contracts." [placeholder]

¹⁶ See "Basel III: Finalising post-crisis reforms," available at <https://www.bis.org/bcbs/publ/d424.htm>. The BCBS is a committee of banking supervisory authorities, which was established by the central bank governors of the G-10 countries in 1975. More information regarding the BCBS and its membership is available at <http://www.bis.org/bcbs/about.htm>. Documents issued by the BCBS are available through the Bank for International Settlements Web site at <http://www.bis.org>.

soundness of banking organizations. The agencies continue to evaluate the requirements of these measures to ensure that they meet their objectives in a manner that minimizes unintended consequences and aligns with banking organizations' risk profiles. These efforts include assessing the costs and benefits of regulations as well as exploring alternative approaches that achieve regulatory objectives but improve upon the simplicity, transparency, and efficiency of the regime. The proposal builds on the agencies' existing practice of tailoring capital and liquidity requirements based on the size, complexity, and overall risk profile of banking organizations.

The proposal would make changes that would further distinguish applicable capital and liquidity standards on the basis of risk. Under the proposal, the most stringent standards would continue to apply to banking organizations that present the greatest systemic risks. For other banking organizations, the proposal would refine the application of capital and liquidity standards based on these banking organizations' risk profiles, consistent with safety and soundness and financial stability.

Under the proposal, the most stringent set of standards (Category I) would apply to U.S. GSIBs and their subsidiary depository institutions. These banking organizations have the potential to pose the greatest risks to U.S. financial stability due to their systemic risk profiles. The existing post-financial crisis framework for U.S. GSIBs has resulted in significant gains in resiliency and risk management. The proposal accordingly would maintain the most stringent standards for these banking organizations, which are generally consistent with the standards developed by the BCBS, subject to notice and comment rulemaking in the United States.

The second set of standards (Category II) would apply to banking organizations that are very large or have significant international activity. Like Category I, the agencies intend for

Category II standards to be consistent with standards developed by the BCBS, subject to notice and comment rulemaking in the United States. The application of consistent prudential standards across jurisdictions to banking organizations with significant size or cross-jurisdictional activity helps to promote competitive equity among U.S. banking organizations and their foreign peers and competitors, and to reduce opportunities for regulatory arbitrage, while applying standards that appropriately reflect the risk profiles of banking organizations in this category. In addition, consistency of standards can facilitate U.S. banking organizations' regulatory compliance in foreign markets. Category II standards would also reflect the risks associated with these banking organizations' very large size or cross-border operations.

The third set of standards (Category III) would apply to banking organizations with total consolidated assets of \$250 billion or more that do not meet the criteria for Category I or II, and to other banking organizations with total consolidated assets of \$100 billion or more, but less than \$250 billion, that meet or exceed specified indicators of risk. Category III standards would reflect these banking organizations' heightened risk profiles relative to smaller and less complex banking organizations.

The fourth set of standards (Category IV) would apply to banking organizations with total consolidated assets of \$100 billion or more that do not meet the thresholds for one of the other categories. These banking organizations generally have greater scale and operational and managerial complexity relative to smaller banking organizations, but less than banking organizations that would be subject to Category I, II, or III standards. In addition, the failure or distress of one or more banking organizations that would be subject to Category IV standards, while not likely to have as significant of an impact on financial stability as the failure or distress of a firm subject to Category I, II or III standards, could nonetheless have a more significant

negative effect on economic growth and employment relative to the failure or distress of smaller banking organizations. Category IV standards are therefore less stringent than Category III standards, reflecting the lower risk profile of these banking organizations relative to other banking organizations with \$100 billion or more in total consolidated assets. For example, based on the size and risk profile of these banking organizations, the proposal would remove applicability of the LCR rule and proposed NSFR rule for banking organizations subject to Category IV standards. As a result, firms subject to Category IV standards would generally face the same capital and liquidity regulatory requirements as banking organizations under \$100 billion in total consolidated assets.¹⁷ Unlike firms with less than \$100 billion in total consolidated assets, however, firms subject to Category IV standards would be required to monitor and report certain risk-based indicators, as described further below.

A. Scope of application

The next section II.B describes the proposed criteria for determining which of the four proposed categories of standards applies to a banking organization with total consolidated assets of \$100 billion or more and its subsidiary depository institutions. The proposed categories and criteria are consistent with the considerations and factors set forth in section 165 of the Dodd-Frank Act, as amended by EGRRCPA, and with the categories of prudential standards in the Board-only proposal. The proposal would not amend the capital and liquidity requirements applicable to an intermediate holding company or its subsidiary depository institutions or the

¹⁷ Bank holding companies and savings and loan holding companies with less than \$3 billion in total consolidated assets and that meet certain additional criteria are not subject to the capital rule pursuant to the Board's small bank holding company policy statement. *See* 12 CFR 217.1(c)(1)(ii) and (iii); 12 CFR part 225, appendix C; 12 CFR 238.9.

bank holding company subsidiary of a foreign banking organization.¹⁸ This proposal also would not amend the requirements applicable to Federal branches or agencies of foreign banking organizations.

The proposal would apply the same category of standards to both the top-tier holding company and its subsidiary depository institutions. With respect to capital, the proposal would apply the same requirements to a subsidiary depository institution of a holding company as would apply at the holding company level. This treatment aligns with the agencies' longstanding policy of applying similar standards to holding companies and their subsidiary depository institutions. For example, since 2007 the agencies have generally required depository institutions to apply the advanced approaches capital requirements if their parent holding company is identified as an advanced approaches banking organization. This approach serves as an important safeguard against arbitrage among affiliated banks that would otherwise be subject to substantially different regulatory requirements. With respect to liquidity, subsidiary depository institutions of a holding company subject to the full LCR and the proposed full NSFR with \$10 billion or more in total consolidated assets at the depository institution level are also subject to the LCR requirement and would be subject to the proposed NSFR requirement. Large subsidiary depository institutions play a significant role in a covered company's funding structure, and in the operation of the payments system. These large subsidiaries generally also have access to deposit insurance coverage. Accordingly, the proposal would maintain the

¹⁸ The Board continues to consider the appropriate way to assign the U.S. operations of foreign banking organizations to the categories of standards described in this proposal, in light of the special structures through which these banking organizations conduct business in the United States. The Board plans to develop a separate proposal relating to foreign banking organizations and their U.S. operations.

application of the LCR and proposed NSFR requirements to these large subsidiary depository institutions.

Question 1: The agencies invite comment on the advantages and disadvantages of assigning a category of standards to a subsidiary depository institution based on the category assigned to its top-tier parent holding company. What would be the advantages and disadvantages of relying on the top-tier holding company's categorization and, under this approach, how should these standards be applied at the subsidiary depository institution? If commenters prefer an alternative approach to relying on the top-tier holding company's categorization, please describe any alternative scoping criteria that the agencies should consider for categorizing subsidiary depository institutions. If an alternative approach were applied, what increases in compliance costs or operational challenges could arise if a subsidiary depository institution were subject to a different category of standards than its top-tier parent holding company?

B. Scoping criteria for proposed categories

Where possible, the proposal would rely on indicators and thresholds already used in the agencies' existing regulatory frameworks or reported by large U.S. bank holding companies or savings and loan holding companies. As described further below, these categories would be defined based on the following criteria:

- Category I standards would apply to U.S. GSIBs and their subsidiary depository institutions.
- Category II standards would apply to banking organizations with \$700 billion or more in total consolidated assets or \$75 billion or more in cross-jurisdictional activity that are not subject to Category I standards and to their subsidiary depository institutions.

- Category III standards would apply to banking organizations that are not subject to Category I or II standards and that have \$250 billion or more in total consolidated assets or \$75 billion or more in any of the following indicators: nonbank assets, weighted short-term wholesale funding, or off-balance-sheet exposures. Category III standards would also apply to the subsidiary depository institutions of any holding companies subject to Category III standards.
- Category IV standards would apply to banking organizations with at least \$100 billion in total consolidated assets that do not meet any of the thresholds specified for Categories I through III and to their subsidiary depository institutions.

To determine which banking organizations are subject to the most stringent standards under Category I, the agencies would use the existing methodology under the Board’s GSIB surcharge rule.¹⁹ The proposal would not modify the requirements that currently apply to U.S. GSIBs and their subsidiary depository institutions.

To determine the applicability of the remaining categories of capital and liquidity standards, the agencies are proposing to differentiate requirements based on a banking organization’s level of specific risk-based indicators.²⁰ This approach is intended to allow banking organizations and the public to easily identify and predict what requirements will apply to a banking organization, and what requirements would apply if the characteristics of a banking

¹⁹ See 12 CFR 217 subpart H; *see also* “Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Final Rule,” 80 FR 49082 (August 14, 2015).

²⁰ As an alternative, the agencies are also requesting comment on a score-based approach, which would differentiate requirements for banking organizations using an aggregated “score” across multiple measures of risk. Section II.B.3 of this Supplementary Information section describes this proposed alternative.

organization change. Under the proposed approach, Categories II through IV would be defined by five indicators linked to a banking organization's risk profile: size, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. By taking into consideration the relative presence or absence of each risk factor, the proposal would provide a basis for assessing a banking organization's financial stability and safety and soundness risks.²¹ These indicators generally track measures already used in the agencies' existing regulatory framework and that banking organizations that would be covered by the proposal already publicly report at the holding company level. This approach would promote transparency and, for banking organizations that already report this information, would not require additional compliance costs to track and report. The proposed thresholds would apply based on the level of each indicator over the preceding four calendar quarters, as described further below, in order to account for significant changes in a banking organization's risk profile that reflect longer term shifts in business activities.

Under the proposal, a depository institution without a holding company would be required to calculate these risk-based indicators, apart from size, based upon the instructions of certain reports that are required to be filed by holding companies, including the Banking Organization Systemic Risk Report (FR Y-15) and the Company Only Financial Statements for Large Holding Companies (FR Y-9LP). Specifically, such a depository institution would need to report cross-jurisdictional activity, weighted short-term wholesale funding, off-balance sheet

²¹ When reviewing agency interpretations of statutes that require an agency to "take into account" or "take into consideration" a number of factors, courts generally defer to the expertise of the agency in determining how to apply the factors and the relative weight given to each factor. *See, e.g.,* National Wildlife Federation v. EPA, 286 F.3d 554, 570 (D.C. Cir. 2002); Lignite Energy v. EPA, 198 F.3d 930, 933 (D.C. Cir. 1999); Trans World Airlines, Inc. v. Civil Aeronautics Board, 637 F.2d 62, 67-68 (2d Cir. 1980); Weyerhaeuser v. EPA, 590 F.2d 1011, 1046 (D.C. Cir. 1978);; *Sec'y of Agric. v. Cent. Roig Ref. Co.*, 338 U.S. 604, 611-12 (1950).

exposure, and nonbank asset indicator data to its agency supervisory staff for the purpose of determining which capital and liquidity regulations would apply.

Question 2: The agencies invite comment on the advantages and disadvantages of requiring a depository institution without a holding company to calculate indicators according to this approach. What operational complexities and challenges would arise if the agencies adopted this approach? What additional information could the agencies incorporate into the Consolidated Reports of Condition and Income (Call Reports), or other reports currently required of depository institutions, to replicate the calculation methodology for these indicators such as the measure of foreign assets and liabilities captured in the FR Y-15? What existing information is currently reported by depository institutions that could be used to replicate the calculation methodologies described under the proposal? What alternative indicators and related reporting requirements should the agencies consider to apply the proposal to large depository institutions without holding companies?

1. Size

The proposal would measure size based on a banking organization's total consolidated assets. The agencies have previously used size as a simple measure of a banking organization's potential systemic impact as well as safety and soundness risks.²²

The effect of a large banking organization's failure on the economy is likely to be greater than that which occurs when a smaller banking organization fails, even though the two banking

²² For example, advanced approaches capital requirements, the supplementary leverage ratio, and the LCR requirement generally apply to banking organizations with total consolidated assets of \$250 billion or more or total consolidated on-balance sheet foreign exposure of \$10 billion or more.

organizations might be engaged in similar business lines.²³ Board staff estimates that stress at a single large banking organization with an assumed \$100 billion in deposits would result in approximately a 107 percent decline in quarterly real GDP growth, whereas stress among five smaller banking organizations—each with an assumed \$20 billion in deposits—would result in roughly a 22 percent decline in quarterly real GDP growth.²⁴ Both scenarios assume \$100 billion in total deposits, but the negative impact is greatest when larger banking organizations fail.

In general, a banking organization's size also provides a measure of the extent to which customers or counterparties may be exposed to a risk of loss or suffer a disruption in the provision of services if a banking organization were to experience distress, and the extent to which asset fire sales by a banking organization could transmit distress to other market participants, given that a larger banking organization has more assets to sell. In addition, the large size of a banking organization may give rise to challenges that may complicate resolution of the firm if it were to fail.

The size of a banking organization can also be an indication of operational and managerial complexity, which can present safety and soundness risks even when a banking organization is not engaged in complex business lines. A larger banking organization operates on a larger scale, has a broader geographic scope, and generally will have more complex internal operations than a smaller banking organization, resulting in greater risks to safety and soundness.

²³ See Amy G. Lorenc, and Jeffery Y. Zhang (2018). "The Differential Impact of Bank Size on Systemic Risk," *Finance and Economics Discussion Series* 2018-066. Washington: Board of Governors of the Federal Reserve System, available at: <https://doi.org/10.17016/FEDS.2018.066>.

²⁴ *Id.*

The proposal would establish thresholds of \$700 billion, \$250 billion, and \$100 billion in total consolidated assets for Category II, III, and IV requirements, respectively, for banking organizations that are not U.S. GSIBs. A holding company with \$700 billion or more in total consolidated assets, and its subsidiary depository institutions, would be subject to Category II requirements in order to address the substantial risks that can arise from the activities and potential distress of very large banking organizations that are not U.S. GSIBs. Historical examples suggest that a banking organization of this size should be subject to stringent prudential standards. For example, during the financial crisis, significant losses at Wachovia Corporation, which had \$780 billion in assets at the time of being acquired in distress, had a destabilizing effect on the financial system. A threshold of \$700 billion or more in total consolidated assets would ensure that a banking organization with a size of similar magnitude would be subject to Category II standards.

A holding company with \$250 billion or more in total consolidated assets that does not meet the requirements for Category II, and its subsidiary depository institutions, would be subject to Category III requirements. As discussed above, the Board estimates that the failure or distress of a banking organization of this size would likely have a greater economic and financial stability impact than that of a smaller banking organization,²⁵ and Category III standards would also further the safety and soundness of a banking organization of this size. The application of strong prudential standards would also be consistent with weaknesses and risks highlighted during the financial crisis with banking organizations of this size, such as Washington Mutual.²⁶

²⁵ *Id.*

²⁶ Washington Mutual, a savings and loan holding company, had approximately \$300 billion in assets at the time of failure. After the collapse of Lehman Brothers, Washington Mutual experienced significant deposit outflows and was unable to raise funds to improve its liquidity

A threshold of this level would also align with the \$250 billion statutory asset threshold under EGRRCPA, above which the Board must apply enhanced prudential standards to a bank holding company.²⁷

In the Board-only proposal, the Board is proposing to apply certain requirements as Category IV standards to bank holding companies and certain savings and loan holding companies with \$100 billion or more in total consolidated assets that do not meet the criteria for Category I, II, or III. As discussed in section II.C.4 of this Supplementary Information section, based on the risk profiles of banking organizations that would be subject to Category IV standards, the agencies are proposing not to apply to banking organizations that meet the Category IV criteria additional requirements under the capital rule relative to generally applicable requirements or the LCR rule or proposed NSFR rule.

Question 3: The agencies invite comment on the advantages and disadvantages of using size thresholds to tailor capital and liquidity requirements. The agencies invite comment on whether the inclusion of asset size thresholds in capital and liquidity standards drives changes in bank business models and risk profiles in ways that differ from the effects of thresholds based on other risk-based indicators. As an alternative to size thresholds, the agencies invite comment on whether other factors alone can adequately differentiate between the risk profiles of banking organizations and serve as the primary tool to tailor capital and liquidity requirements.

position. In September 2008, the Office of Thrift Supervision, Washington Mutual's primary regulator, determined that the firm had insufficient liquidity to meet its obligations, closed the firm, and appointed the FDIC as the receiver. Washington Mutual was thereafter acquired by another firm. The FDIC estimated that it would have cost \$42 billion to liquidate Washington Mutual, a sum that would have depleted the entire balance of the Deposit Insurance Fund at the time. See Offices of Inspector General, U.S. Department of Treasury and FDIC, Evaluation of Federal Regulatory Oversight of Washington Mutual Bank (April 2010), available at: <https://www.fdicig.gov/sites/default/files/publications/10-002EV.pdf>.

²⁷ See EGRRCPA § 401.

2. *Other risk-based indicators*

In addition to size, the proposal would consider a banking organization's level of cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure to determine the applicable category of standards. The agencies are proposing to apply a uniform threshold of \$75 billion for each of these risk-based indicators, based on the degree of concentration this amount would represent for each banking organization. In each case, a threshold of \$75 billion would represent at least 30 percent and as much as 75 percent of total consolidated assets for banking organizations with between \$100 billion and \$250 billion in total consolidated assets.²⁸ In addition, setting the indicators at \$75 billion would ensure that banking organizations that account for the vast majority—over 85 percent—of the total amount of each risk factor among all U.S. depository institution holding companies with \$100 billion or more in total consolidated assets would be subject to prudential standards that account for the associated risks of these indicators, which facilitates consistent treatment of these risks across banking organizations. To the extent levels and the distribution of an indicator substantially change in the future, the agencies may consider modifications if appropriate.

Category II standards would apply to a banking organization with \$100 billion or more in total consolidated assets and \$75 billion or more in cross-jurisdictional activity to promote parallel treatment among banking organizations with large global operations. Category III standards would apply to a banking organization with \$100 billion or more in total consolidated

²⁸ Because a size threshold of \$250 billion in total consolidated assets also would apply for Category III, the weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure indicators would only have effect for a banking organization with total consolidated assets of \$100 billion or more, but less than \$250 billion. Similarly, the proposed cross-jurisdictional activity threshold would only have effect for a banking organization with total consolidated assets of \$100 billion or more, but less than \$700 billion.

assets and at least \$75 billion in weighted short-term wholesale funding, nonbank assets, or off-balance sheet exposure.

a. Cross-jurisdictional activity

Cross-jurisdictional activity would be defined as the sum of cross-jurisdictional assets and liabilities, as each is reported on the FR Y-15 by holding companies. Cross-jurisdictional activity can affect the complexity of a banking organization and give rise to challenges that may complicate the resolution of such a banking organization if it were to fail. In particular, foreign operations and cross-border positions add operational complexity in normal times and complicate the ability of a banking organization to undergo a successful recovery in times of stress, generating both safety and soundness and financial stability risks. For example, a banking organization with significant cross-border operations may require more sophisticated capital and liquidity management relating to risks of ring-fencing by one or more jurisdictions during stress, which could impede the banking organization's ability to move resources in one jurisdiction to meet needs in another.

The agencies' capital and liquidity regulations currently use foreign exposure as a metric to determine the application of certain requirements, such as advanced approaches capital requirements²⁹ and the LCR requirement.³⁰ The proposal would amend these regulations to replace the current \$10 billion foreign exposure threshold with a \$75 billion cross-jurisdictional activity threshold. Compared to the current foreign exposure measure, the proposed cross-jurisdictional activity indicator includes foreign liabilities in addition to foreign assets. In addition, compared to the foreign exposure measure, the proposed cross-jurisdictional activity

²⁹ See 12 CFR 217.100(b)(1) (Board), 12 CFR 324.100(b)(1) (FDIC), 12 CFR 3.100(b)(1) (OCC).

³⁰ See 12 CFR 249.1(b)(ii) (Board), 12 CFR 329.1(b)(ii)(FDIC), 12 CFR 50.1(b)(ii) (OCC).

indicator does not include the assets and liabilities from positions in derivative contracts.

Measuring cross-jurisdictional activity using both assets and liabilities—instead of just assets—would provide a broader gauge of the scale of a banking organization’s foreign operations, as it includes both borrowing and lending activities outside of the United States.

Question 4: How should depository institutions report a measure of foreign assets and liabilities for purposes of calculating cross-jurisdictional activity? What problems would depository institutions face if they used the measure of foreign assets and liabilities as reported on the Country Exposure Report (FFIEC 009)?

b. Weighted short-term wholesale funding

The proposed weighted short-term wholesale funding indicator would track the measure currently reported on the FR Y-15 by holding companies and be consistent with the calculation used for purposes of the GSIB surcharge rule.³¹ This indicator provides a measure of a banking organization’s liquidity risk, as reliance on short-term, generally uninsured funding from more sophisticated counterparties can make a banking organization vulnerable to the consequences of large-scale funding runs. In particular, banking organizations that fund long-term assets with short-term liabilities from financial intermediaries such as investment funds may face large liquidity outflows resulting in the need to rapidly sell relatively illiquid assets to fund withdrawals and maintain their operations in a time of stress, which they may be able to do only

³¹ Specifically, short-term wholesale funding is the amount of a banking organization’s funding obtained from wholesale counterparties or retail brokered deposits and sweeps with a remaining maturity of one year or less. Categories of short-term wholesale funding are then weighted based on four residual maturity buckets; the asset class of collateral, if any, backing the funding; and characteristics of the counterparty. Weightings reflect risk of runs and attendant fire sales. See 12 CFR 217.406 and Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, 80 FR 49082 (August 14, 2015).

at fire sale prices. Such asset fire sales can cause rapid deterioration in a banking organization's financial condition and negatively affect broader financial stability by driving down asset prices across the market. As a result, the short-term wholesale funding indicator reflects both safety and soundness and financial stability risks. This indicator also provides a measure of interconnectedness among market participants, including other financial sector entities, which can provide a mechanism for transmission of distress.

c. Nonbank assets

Under the proposal, nonbank assets would be measured as the average amount of equity investments in nonbank subsidiaries.³² The level of a banking organization's investment in nonbank subsidiaries provides a measure of the organization's business and operational complexity. Specifically, banking organizations with significant investments in nonbank subsidiaries are more likely to have complex corporate structures, inter-affiliate transactions, and funding relationships. As discussed in the Board's final GSIB surcharge rulemaking, a banking organization's complexity is positively correlated with the impact of its failure or distress.³³ Because nonbank subsidiaries may not be resolved through the FDIC's receivership process, significant investments in nonbank subsidiaries present heightened resolvability risk.

³² The proposed measure of nonbank assets also would include the average of the assets in each Edge or Agreement Corporation, but would exclude nonbank assets held in a savings association.

³³ See Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, 80 FR 49082 (August 14, 2015). See paragraph 25 of the "Global systemically important banks: Updated assessment methodology and the higher loss absorbency requirement," which provides certain revisions and clarifications to the initial GSIB framework. The document is available at <http://www.bis.org/publ/bcbs255.htm>.

Nonbank activities may involve a broader range of risks than those associated with purely banking activities, and can increase interconnectedness with other financial firms, requiring sophisticated risk management and governance, including capital planning, stress testing, and liquidity risk management. If not adequately managed, the risks associated with nonbanking activities could present significant safety and soundness concerns and increase financial stability risks. The failure of a nonbank subsidiary could be destabilizing to a banking organization and cause counterparties and creditors to lose confidence in the banking organization. Nonbank assets also reflect the degree to which a banking organization may be engaged in activities through legal entities that are not subject to separate capital requirements or to the direct regulation and supervision applicable to a regulated banking entity.

d. Off-balance sheet exposure

Off-balance sheet exposure complements the measure of size by taking into consideration financial and banking activities not reflected on a banking organization's balance sheet. Like a banking organization's size, off-balance sheet exposure provides a measure of the extent to which customers or counterparties may be exposed to a risk of loss or suffer a disruption in the provision of services. In addition, off-balance sheet exposure can lead to significant future draws on capital and liquidity, particularly in times of stress. In the financial crisis, for example, vulnerabilities at individual banking organizations were exacerbated by margin calls on derivative exposures, calls on commitments, and support provided to sponsored funds. These exposures can be a source of safety and soundness risk, as banking organizations with significant off-balance sheet exposure may have to fund these positions in the market in a time of stress, which can put a strain on both capital and liquidity. The nature of these risks for banking organizations of this size and complexity can also lead to financial stability risk, as they can

manifest rapidly and with less transparency to other market participants. In addition, because draws on off-balance sheet exposures such as committed credit and liquidity facilities tend to increase in times of stress, they can exacerbate the effects of stress on a banking organization.³⁴

Off-balance sheet exposures may also serve as a measure of a banking organization's interconnectedness. Some off-balance sheet exposures, such as derivatives, are concentrated among the largest financial firms.³⁵ The distress or failure of one party to a financial contract, such as a derivative or securities financing transaction, can trigger disruptive terminations of these contracts that destabilize the defaulting party's otherwise solvent affiliates.³⁶ Such a default also can lead to disruptions in markets for financial contracts, including by resulting in rapid market-wide unwinding of trading positions.³⁷ In this way, the effects of one party's failure or distress can be amplified by its off-balance sheet connections with other financial market participants.

³⁴ See William F. Bassett, Simon Gilchrist, Gretchen C. Weinbach, Egon Zakrajšek, "Improving Our Ability to Monitor Bank Lending," chapter in *Risk Topography: Systemic Risk and Macro Modeling* (2014), Markus Brunnermeier and Arvind Krishnamurthy, ed., pp. 149 – 161, available at: <http://www.nber.org/chapters/c12554>.

³⁵ See, e.g., Sheri M. Markose, *Systemic Risk from Global Financial Derivatives: A Network Analysis of Contagion and its Mitigation with Super-Spreader Tax*, IMF Working Papers (Nov. 30, 2012), available at: <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Systemic-Risk-from-Global-Financial-Derivatives-A-Network-Analysis-of-Contagion-and-Its-40130>.

³⁶ To address these risks, the agencies have established restrictions relating to the qualified financial contracts of U.S. GSIBs, the insured depository institution subsidiaries of U.S. GSIBs, and the U.S. operations of systemically important foreign banking organizations. See 12 CFR part 252, subpart I (Board); 12 CFR part 47 (OCC); and 12 CFR part 382 (FDIC). That rule does not apply to savings and loan holding companies, or to other large bank holding companies and insured depository institutions.

³⁷ See, e.g., *The Orderly Liquidation of Lehman Brothers Holdings Inc. under the Dodd-Frank Act*, 5 FDIC Quarterly No. 2, 31 (2011), <https://www.fdic.gov/bank/analytical/quarterly/2011-vol5-2/article2.pdf>.

The proposal would define off-balance sheet exposure based on measures currently reported by holding companies with more than \$100 billion in assets, specifically, as total exposure, as defined on FR Y-15, minus total consolidated assets, as reported on the Consolidated Financial Statements for Holding Companies (FR Y-9C). Total exposure includes a banking organization's on-balance sheet assets plus certain off-balance sheet exposures, including derivative exposures, repo-style transactions, and other off-balance sheet exposures (such as commitments).

Question 5: What are the advantages and disadvantages of the proposed risk-based indicators? What different indicators should the agencies use, and why?

Question 6: At what level should the threshold for each indicator be set, and why? Commenters are encouraged to provide data supporting their recommendations.

Question 7: The agencies are considering whether Category II standards should apply based on a banking organization's weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure, using a higher threshold than the \$75 billion that would apply for Category III standards, in addition to the thresholds discussed above based on asset size and cross-jurisdictional activity. For example, a banking organization could be subject to Category II standards if one or more of these indicators equaled or exceeded a level such as \$100 billion or \$200 billion. A threshold of \$200 billion would represent at least 30 percent and as much as 80 percent of total consolidated assets for banking organizations with between \$250 billion and \$700 billion in total consolidated assets. If the agencies were to adopt additional indicators for purposes of identifying banking organizations that should be subject to Category II standards, at what level should the threshold for each indicator be set, and why? Commenters are encouraged to provide data supporting their recommendations.

3. *Alternative scoping criteria*

An alternative approach for assessing the risk profile and systemic footprint of a banking organization for purposes of tailoring prudential standards would be to use a single, comprehensive score. The Board uses a GSIB identification methodology (scoring methodology) to identify global systemically important bank holding companies and apply risk-based capital surcharges to these banking organizations. The agencies could use this same scoring methodology to tailor prudential standards for large, but not globally systemic, banking organizations.

The scoring methodology calculates a GSIB's capital surcharge under two methods.³⁸ The first method is based on the sum of a firm's systemic indicator scores reflecting its size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity (method 1). The second method is based on the sum of these same measures of risk, except that the substitutability measures are replaced with a measure of the firm's reliance on short-term wholesale funding (method 2).³⁹

The Board designed the scoring methodology to provide a single, comprehensive, integrated assessment of a large bank holding company's systemic footprint. Accordingly, the indicators in the scoring methodology measure the extent to which the failure or distress of a bank holding company could pose a threat to financial stability or inflict material damage on the broader economy. The indicators used in the scoring methodology also could be used to help

³⁸ See 12 CFR part 217, subpart H.

³⁹ For more discussion relating to the scoring methodology, please see the Board's final rule establishing the scoring methodology. See *Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies*, 80 FR 49082 (Aug. 14, 2015).

identify banking organizations that have heightened risk profiles and would closely align with the risk-based factors specified in section 165 of the Dodd-Frank Act for applying enhanced prudential standards and differentiating among banking organizations to which the enhanced prudential standards apply.⁴⁰ Importantly, large bank holding companies already submit to the Board periodic public reports on their indicator scores in the scoring methodology. Accordingly, use of the scoring methodology more broadly for tailoring of prudential standards would promote transparency and would economize on compliance costs for large bank holding companies.

Under the alternative scoring approach, a banking organization's size and either its method 1 or method 2 score from the scoring methodology would be used to determine which category of standards would apply to the firm. In light of the changes made by EGRRCPA, the Board conducted an analysis of the distribution of method 1 and method 2 scores of bank holding companies and covered savings and loan holding companies with at least \$100 billion in total assets.⁴¹

Category I: As under the proposal and under the Board's existing enhanced prudential standards framework, Category I standards would continue to apply to U.S. GSIBs, which would continue to be defined as U.S. banking organizations with a method 1 score of 130 or more.

Category II: Category II banking organizations are defined in the proposal as those whose failure or distress could impose costs on the U.S. financial system and economy that are

⁴⁰ See 12 U.S.C. 5365(a)(2)(A).

⁴¹ In conducting its analysis, the Board considered method 1 and method 2 scores as of December 31, 2017. Consistent with the thresholds in EGRRCPA, the Board considered the scores of bank holding companies and covered savings and loan holding companies with total consolidated assets of \$100 billion or more but less than \$250 billion, \$250 billion or more that are not GSIBs, and GSIBs.

higher than the costs imposed by the failure or distress of an average banking organization with total consolidated assets of \$250 billion or more.

In selecting the ranges of method 1 or method 2 scores that could define the application of Category II standards, the Board considered the potential of a firm's material distress or failure to disrupt the U.S. financial system or economy. As noted in section II.B.1 of this Supplementary Information section, during the financial crisis, significant losses at Wachovia Corporation, which had \$780 billion in total consolidated assets at the time of being acquired in distress, had a destabilizing effect on the financial system. The Board estimated method 1 and method 2 scores for Wachovia Corporation, based on available data, and also calculated the scores of banking organizations with more than \$250 billion in total consolidated assets that are not U.S. GSIBs assuming that each had \$700 billion in total consolidated assets (the asset size threshold used to define Category II in the agencies' main proposal). The Board also considered the outlier method 1 and method 2 scores for banking organizations with more than \$250 billion in total consolidated assets that are not U.S. GSIBs.⁴²

Based on this analysis, the agencies would apply Category II standards to any non-GSIB banking organization with at least \$100 billion in total consolidated assets and with a method 1 score between 60 and 80 or a method 2 score between 100 to 150. If the agencies adopt a final rule that uses the scoring methodology to establish tailoring thresholds, the agencies would set a single score within the listed ranges for application of Category II standards. The agencies invite comment on what score within these ranges would be appropriate.

⁴² Outliers can be determined by a number of statistical methods. For these purposes, the Board computed an outlier as the third quartile plus three times the interquartile range of method 1 and method 2 scores of these U.S. bank holding companies and covered savings and loan holding companies.

Category III: As noted, section 165 of the Dodd-Frank Act requires the Board to apply enhanced prudential standards to any bank holding company with total consolidated assets of \$250 billion or more and authorizes the Board to apply these standards to bank holding companies with between \$100 billion and \$250 billion in total consolidated assets if the Board makes certain statutory findings. To determine a scoring methodology threshold for application of Category III standards to banking organizations with between \$100 billion and \$250 billion in total consolidated assets, the Board considered the scores of these banking organizations as compared to the scores of banking organizations with greater than \$250 billion in total consolidated assets that are not U.S. GSIBs. Based on this analysis, the Board determined that, under a scoring methodology approach to tailoring, Category III standards would be applied to banking organizations with total consolidated assets between \$100 billion and \$250 billion in that have a method 1 score between 25 to 45. Banking organizations with a score in this range would have a score similar to that of the average firm with greater than \$250 billion in total consolidated assets. Using method 2 scores, the agencies would apply Category III standards to any banking organization with total consolidated assets between \$100 billion and \$250 billion that have a method 2 score between 50 to 85. Again, if the agencies were to adopt the scoring methodology for tailoring in a final rule, the agencies would pick a single score within the listed ranges. The agencies invite comment on what score within these ranges would be appropriate.

Category IV: Under a score-based approach, category IV standards would apply to banking organizations with at least \$100 billion in total assets that do not meet any of the thresholds specified for Categories I through III (that is, a method 1 score of less than 25 to 45 or a method 2 score of less than 50 to 85).

Question 8: What are the advantages and disadvantages to using the scoring methodology and category thresholds described above relative to the proposed thresholds?

Question 9: If the agencies were to use the scoring methodology to differentiate non-GSIB banking organizations for purposes of tailoring prudential standards, should the agencies use method 1 scores, method 2 scores, or both?

Question 10: If the agencies adopt the scoring methodology, what would be the advantages or disadvantages of the agencies requiring banking organizations to calculate their scores at a frequency greater than annually, including, for example, requiring a banking organization to calculate its score on a quarterly basis?

Question 11: With respect to each category of banking organization described above, at what level should the method 1 or method 2 score thresholds be set and why, and discuss how those levels could be impacted by considering additional data, or by considering possible changes in the banking system. Commenters are encouraged to provide data supporting their recommendations.

Question 12: What are the advantages and disadvantages in using the scoring methodology to categorize banking organizations with systemic footprints smaller than the GSIBs for purposes of tailoring prudential standards?

Question 13: What other approaches should the agencies consider in setting thresholds for tailored prudential standards?

4. Determination of applicable category of standards

Under the proposal, a holding company with total consolidated assets of \$100 billion or more and its subsidiary depository institutions would be required to determine the category of standards to which it is subject. The proposal would add certain defined terms to the agencies'

capital rule and LCR rule to implement the proposed categories. U.S. GSIBs would continue to be identified using the Board's GSIB surcharge methodology, and the proposal would refer to these banking organizations as global systemically important BHCs, consistent with the term used elsewhere in the agencies' regulations.⁴³ The proposal would also add defined terms for banking organizations subject to Category II, III, or IV standards as Category II banking organizations, Category III banking organizations, or Category IV banking organizations, respectively.

Banking organizations that would be subject to the proposal would be required to report size and other risk-based indicators on a quarterly basis. In order to capture significant changes in a banking organization's risk profile, rather than temporary fluctuations, a category of standards would apply to a banking organization based on the average levels of each indicator over the preceding four calendar quarters.⁴⁴ A banking organization would remain subject to a category of standards until the banking organization no longer meets the indicators for its current category in each of the four most recent calendar quarters, or until the banking organization meets the criteria for another category of standards based on an increase in the average value of one or more indicators over the preceding four calendar quarters. This approach would be consistent with the existing applicability and cessation requirements of the Board's enhanced prudential standards rule.⁴⁵ Changes in requirements that result from a change in category generally would take effect on the first day of the second quarter following the change in the

⁴³ See, e.g., 12 CFR part 217.

⁴⁴ With respect to a firm that has reported an indicator for less than four quarters, the proposal would refer to the average of the most recent quarter or quarters.

⁴⁵ See, e.g., 12 CFR 252.43.

banking organization's category.⁴⁶ For example, a banking organization that changes from Category IV to Category III based on an increase in the average value of its indicators over the first, second, third, and fourth quarters of a calendar year would be subject to Category III standards beginning on April 1 (the first day of the second quarter) of the following year.

Under the LCR rule and NSFR proposed rule, a banking organization that meets the thresholds for applicability measured as of the year-end must comply with the requirement(s) beginning on April 1 of the following year, or as specified by the appropriate agency.⁴⁷ Under the proposal, a banking organization that becomes subject to the LCR rule or proposed NSFR rule would be required to comply with these requirements on the first day of the second quarter after the banking organization became subject to these requirements, consistent with the amount of time currently provided under the LCR rule and proposed NSFR rule after the year-end measurement date.

In addition, the LCR rule provides newly covered banking organizations with a transition period for the daily calculation requirement, recognizing that a daily calculation requirement could impose significant operational and technology demands. Specifically, a newly covered banking organization must calculate its LCR monthly from April 1 to December 1 of its first year of compliance. Beginning on January 1 of the following year, the banking organization must calculate its LCR daily.⁴⁸ The proposal would maintain this transition period of three calendar quarters following initial applicability of the LCR requirement.

⁴⁶ The Board would maintain existing transition provisions for Category I and II capital standards, such as changes to a bank holding company's GSIB surcharge.

⁴⁷ 12 CFR 50.1(b)(2) (OCC); 12 CFR 249.1(b)(2) (Board); 12 CFR 329(1)(b)(2) (FDIC); and NSFR proposed rule. *See also* Liquidity Coverage Ratio: Liquidity Risk Measurement Standards, 79 FR 61440, 61447 (October 10, 2014).

⁴⁸ *See id.*

The agencies are not proposing changes to the cessation provisions of the LCR rule, NSFR proposed rule, and advanced approaches capital requirements. Once a banking organization is subject to advanced approaches capital requirements, the LCR rule, or the NSFR proposed rule, it would remain subject to the rule until its primary federal supervisor determines that application of the rule would not be appropriate in light of the banking organization's asset size, level of complexity, risk profile, or scope of operations.

Question 14: What are the advantages and disadvantages to a banking organization calculating its category on a quarterly basis? Discuss whether calculation on an annual basis would be more appropriate and why.

Question 15: What are the advantages and disadvantages of the proposed transition period for each of the standards in each of the categories? What would be the advantages or disadvantages of providing additional time to conform to new requirements? If a banking organization changes category because of an increase in one or more risk-based indicators, discuss the advantages and disadvantages of providing an additional quarter before applying the new category's standards.

Question 16: As noted above, the LCR rule currently provides that a banking organization becomes subject to the LCR rule "beginning on April 1 of the year in which the [banking organization] becomes subject to the minimum liquidity standard." If the applicability of the LCR rule is amended to be based on a four-quarter average of indicators, what would be the advantages and disadvantages of removing this transition mechanism? What would be the advantages and disadvantages of requiring a banking organization to comply with the LCR and proposed NSFR requirements in the quarter following the quarter when it exceeds the applicability thresholds?

Question 17: What would be the advantages and disadvantages of maintaining the cessation provisions in the advanced approaches rule, LCR rule, and NSFR proposed rule? What would be the advantages and disadvantages of aligning the cessation provisions in the advanced approaches capital requirements, LCR rule, and NSFR proposed rule with the transition provisions between categories of standards? For example, the current version of the LCR rule provides that, once a banking organization becomes subject to the LCR rule, it remains subject to the LCR rule until its regulator determines in writing that application of the LCR rule is no longer appropriate. What are the advantages and disadvantages of requiring a written determination before a banking organization can move to a lower category? What would be the advantages and disadvantages of automatically moving the category of a banking organization based on its size and indicators?

C. Proposed Regulatory Framework

This section describes the capital and liquidity requirements that currently apply and those that would apply under the four categories in the proposal. Similar to certain aspects of the current capital requirements, the proposal would allow banking organizations to choose to apply the more stringent requirements of another category (e.g., a banking organization subject to Category III standards could choose to comply with the more stringent Category II standards to minimize compliance costs across multiple jurisdictions).

1. Category I standards

Currently, U.S. GSIBs are subject to the most stringent prudential standards relative to other banking organizations, which reflects the heightened risks these banking organizations pose to U.S. financial stability. The proposal would make no changes to the capital and liquidity requirements applicable to U.S. GSIBs.

Accordingly, U.S. GSIBs would remain subject to the most stringent capital and liquidity requirements, including requirements based on standards developed by the BCBS, subject to notice and comment rulemaking in the United States. Their subsidiary depository institutions would also be subject to the most stringent requirements, as applicable. Category I capital standards would include a requirement to calculate risk-based capital ratios using both the advanced approaches and the standardized approach; the U.S. leverage ratio; the enhanced supplementary leverage ratio; the GSIB surcharge (at the holding company level only); the requirement to recognize most elements of AOCI in regulatory capital; and the requirement to expand their capital conservation buffer by the amount of the countercyclical capital buffer, if applicable. Category I liquidity standards would include the full LCR requirement⁴⁹ and proposed NSFR requirement. These standards would continue to strengthen the capital and liquidity positions of U.S. GSIBs based on their significant risk profiles, to improve their resiliency and ability to provide consistent financial intermediation across market and economic conditions, and to reduce risks to U.S. financial stability.

Consistent with current requirements, a subsidiary depository institution of a banking organization subject to the full LCR and proposed NSFR requirements with \$10 billion or more in total consolidated assets would be required to meet the LCR and NSFR requirements. Currently, the \$10 billion consolidated asset threshold is measured based on the most recent year-end Consolidated Report of Condition and Income. Consistent with the other proposed scoping criteria described in section II.B of this Supplementary Information section, the proposal

⁴⁹ The full requirements of the LCR rule include the calculation of the LCR on each business day and the inclusion of a maturity mismatch add-on in the total net cash outflow amount.

would amend the LCR and proposed NSFR rules to measure this threshold based on the value of total consolidated assets over the four most recent calendar quarters.

2. Category II standards

The failure or distress of banking organizations that would be subject to Category II standards could impose significant costs on the U.S. financial system and economy, although they generally do not present the same degree of risk as U.S. GSIBs. Their size and cross-jurisdictional activity present risks that require enhanced regulatory capital standards and greater supervisory oversight relative to other banking organizations. Further, size and cross-jurisdictional activity can present particularly heightened challenges in the case of a liquidity stress, which can create both financial stability and safety and soundness risks. For example, a very large banking organization that engages in asset fire sales to meet short-term liquidity needs is more likely to transmit distress on a broader scale because of the greater volume of assets it could sell in a short period of time. Similarly, a banking organization with significant international activity may be more exposed to the risk of ring-fencing of liquidity resources by one or more jurisdictions that could impede its ability to move liquidity to meet outflows.

In this proposal, capital and liquidity requirements that are generally consistent with standards developed by the BCBS, subject to notice and comment rulemaking in the United States, would continue to apply to holding companies subject to Category II standards. These standards would include the full LCR and proposed NSFR requirements, advanced approaches capital requirements, and the supplementary leverage ratio. Similar to Category I standards, holding companies subject to Category II standards would also be required to recognize most elements of AOCI in regulatory capital. Reflecting AOCI in regulatory capital results in a more accurate measure of capital, which is important for maintaining the resilience of these banking

organizations. Additionally, holding companies subject to Category II standards would be required to expand their capital conservation buffer by the amount of the countercyclical capital buffer, if applicable.

As under existing requirements, the proposed Category II capital standards would apply to the subsidiary depository institutions of holding companies subject to Category II standards, and the LCR and proposed NSFR requirements would apply to subsidiary depository institutions with total consolidated assets of \$10 billion or more.

3. Category III standards

The agencies' current regulatory framework generally applies the same capital and liquidity standards to all non-GSIB banking organizations with \$250 billion or more in total consolidated assets. For example, advanced approaches capital requirements, the supplementary leverage ratio, and the LCR requirement generally apply to banking organizations with \$250 billion or more in total consolidated assets or \$10 billion or more in foreign exposure. The proposed framework would differentiate among banking organizations with \$250 billion or more in total consolidated assets. In particular, Categories I and II would include requirements generally consistent with standards developed by the BCBS, subject to notice and comment rulemaking in the United States, whereas Category III would include fewer such standards, based on the relatively lower risk profiles and lesser degree of cross-border activity of subject banking organizations. In particular, the agencies are proposing not to apply advanced approaches capital requirements and the requirement to recognize most elements of AOCI in regulatory capital to banking organizations subject to Category III (and Category IV) standards. However, Category III standards would also reflect the elevated risk profile of these banking organizations relative to smaller and less complex banking organizations.

Category III standards would apply to all banking organizations with at least \$250 billion in total consolidated assets that do not meet the criteria for Category I or Category II, as well as to certain banking organizations with less than \$250 billion in total consolidated assets based on their risk profile. As discussed in section II.B.2 of this Supplementary Information section, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure indicators contribute to the systemic risk profile and safety and soundness risk profile of banking organizations.

Under the proposal, Category III capital standards would include generally applicable risk-based capital requirements, the U.S. leverage ratio, and the supplementary leverage ratio. Category III standards would also include the countercyclical capital buffer, given these banking organizations' significant role in financial intermediation in the United States individually and as a group. These banking organizations have a substantial enough footprint that they should expand their capital conservation buffer as necessary to support the prudential goals of the buffer framework. The supplementary leverage ratio would apply to banking organizations subject to Category III standards given these banking organizations' size and risk profile. For example, firms subject to Category III standards include banking organizations with material off-balance sheet exposures that are not accounted for in the traditional U.S. tier 1 leverage ratio. The supplementary leverage ratio is important for these banking organizations to constrain the build-up of off-balance sheet exposures, which can contribute to instability and undermine safety and soundness of individual banking organizations.

The agencies are separately proposing to adopt the standardized approach for counterparty credit risk for derivatives exposures (SA-CCR) and to require advanced approaches banking organizations (banking organizations subject to Category I or II standards, under this

proposal) to use SA-CCR for calculating their risk-based capital ratios and a modified version of SA-CCR for calculating total leverage exposure under the supplementary leverage ratio. If that proposal were to be adopted, the agencies would allow a Category III banking organization to elect to use SA-CCR for calculating derivatives exposure in connection with its risk-based capital ratios, consistent with the SA-CCR proposal. Furthermore, if that proposal were to be adopted, the agencies intend to allow a banking organization subject to Category III standards to elect to use SA-CCR for calculating its total leverage exposure calculations used to determine the supplementary leverage ratio, or to continue to use the current exposure method.

Banking organizations subject to Category III standards would not be required to apply advanced approaches capital requirements. The models for applying these requirements are costly to build and maintain, and the agencies do not expect that the removal of these requirements would materially change the amount of capital that these banking organizations would be required to maintain. The standardized approach currently represents the binding risk-based capital constraint for all banking organizations in the current population of banking organizations that would be subject to Category III standards.

Question 18: Under the current capital rule, the agencies apply certain provisions, such as the supplementary leverage ratio and countercyclical capital buffer, based on the same applicability thresholds as advanced approaches capital requirements. The proposal would establish different applicability thresholds for the supplementary leverage ratio and countercyclical capital buffer by including them as Category III standards, while advanced approaches capital requirements would apply only as Category I and II standards. This approach would increase the risk-sensitivity of the framework and allow for the retention of key elements of the capital rule for banking organizations subject to Category III standards without

requiring them to comply with advanced approaches capital requirements more broadly. However, it also increases the complexity of the capital rule. To what extent, if any, would this additional complexity increase compliance costs for large banking organizations (for example, by requiring banking organizations to monitor and manage the proposed risk-based indicator thresholds)? To what extent, if any, would the proposed approach add complexity for market participants when comparing the capital adequacy of banking organizations in different categories? The agencies request comment on the advantages and disadvantages of establishing separate regulatory capital standards for banking organizations that would be subject to Category III that are different from either Category II or IV standards, including any wider implications for financial stability.

Question 19: What are the advantages and disadvantages of applying the supplementary leverage ratio requirement to banking organizations subject to Category III standards? How do these advantages and disadvantages compare to any costs associated with any additional complexity to the regulatory framework that would result from applying this to banking organizations subject to Category III standards? To what extent would application of the supplementary leverage ratio requirement to these banking organizations strengthen their safety and soundness and improve U.S. financial stability?

Question 20: What are the advantages and disadvantages of not requiring banking organizations subject to Category III standards to recognize most elements of AOCI in regulatory capital? To what extent does not requiring banking organizations subject to Category III standards to recognize most elements of AOCI in regulatory capital impact safety and soundness of individual banking organizations or raise broader financial stability concerns? For example, to what extent would this approach reduce the accuracy of these banking

organizations' reported regulatory capital? To what extent does the recognition of most elements of AOCI in regulatory capital improve market discipline and provide for a clearer picture of the financial health of banking organizations? To what extent does it make comparing the financial condition of Category III banking organizations to that of Category I and Category II banking organizations, on the one hand, and that of Category IV banking organizations, on the other hand, more difficult?

Question 21: With respect to banking organizations that currently recognize most elements of AOCI in regulatory capital, to what extent do intra-quarter variations in regulatory capital due to the inclusion of AOCI since the capital rule took effect differ from variations in reported quarter-end data over the same period? What have been the causes of variations in each?

Question 22: As discussed above, the agencies are not requiring banking organizations subject to Category III standards to recognize most elements of AOCI in regulatory capital. Alternatively, the agencies could require only the top-tier parent holding company to recognize most elements of AOCI in regulatory capital while exempting their subsidiary depository institutions from this requirement. What are the advantages and disadvantages of this alternative approach? What would be the costs and operational challenges associated with this additional complexity, where the holding company and subsidiary depository institutions implement different standards related to AOCI? To what degree would this alternative approach to AOCI impose less cost or burden to banking organizations subject to Category III standards relative to their current AOCI requirement under the agencies' capital rule (i.e., both the top-tier holding company and subsidiary depository institutions are currently required to recognize most elements of AOCI in regulatory capital)? To what degree would this alternative approach

provide market participants with a transparent picture of the financial condition of the subsidiary depository institution and the parent holding company?

Question 23: For purposes of comparability, in a final rulemaking should the agencies require all banking organizations subject to Category III standards to use SA-CCR for either risk-based or supplementary leverage ratio calculations and, if so, why?

Question 24: What would be the advantages and disadvantages of no longer applying the countercyclical capital buffer to banking organizations that would be subject to Category III standards? In particular, how would narrowing the scope of application of the countercyclical buffer affect the financial stability and countercyclical objectives of the buffer? What other regulatory tools, if any, could be used to meet these objectives?

Question 25: The proposal would apply Category III standards to a banking organization that exceeds certain risk-based indicators, including having more than \$75 billion in off-balance sheet exposures. In light of the inclusion of off-balance sheet exposures as a threshold for Category III standards, discuss the advantages and disadvantages of including the supplementary leverage ratio as a Category III standard.

With respect to liquidity requirements, the LCR rule and proposed NSFR rule provide standardized minimum liquidity requirements and measures of liquidity risk that enhance banking organizations' resiliency, improve risk management, and facilitate comparisons of liquidity risk across banking organizations. These standards are designed to achieve two separate but complementary objectives. The LCR rule promotes the resilience of a banking organization to liquidity risk by ensuring that it has sufficient liquid assets to survive a short-term period of stress. The proposed NSFR rule would address funding risks over a longer, one-

year time horizon and mitigate the risk of disruptions to a banking organization's regular sources of funding by requiring banking organizations to maintain a stable funding profile.

Category III standards would include full or reduced LCR and NSFR requirements, depending on a banking organization's level of weighted short-term wholesale funding. Specifically, a banking organization that meets the criteria for Category III standards would be subject to the full LCR and NSFR requirements if it has weighted short-term wholesale funding of \$75 billion or more, or would be subject to less stringent, reduced LCR and NSFR requirements if it has less than \$75 billion in weighted short-term wholesale funding.

For banking organizations subject to Category III standards with weighted short-term wholesale funding of less than \$75 billion, the agencies are proposing to reduce the stringency of the LCR and NSFR requirements and request comment regarding the appropriate level. These banking organizations would be subject to reduced LCR and NSFR requirements, as they have less reliance on short-term wholesale funding that is a source of liquidity risk. While the failure or distress of such a firm could pose risks to U.S. financial stability, their risk profile is lower than that of U.S. GSIBs and they are smaller or face a lesser degree of cross-border challenges than firms that would be subject to Category II standards. In addition, although the proposal would reduce the standardized LCR and NSFR requirements for these banking organizations, under the Board-only proposal, depository institution holding companies subject to Category III standards would be required to comply with liquidity risk management, stress testing, and buffer requirements, which reflect the firm's individual risk profile.

The denominator of the proposed reduced LCR would equal the net cash outflows calculated under the full LCR requirement, multiplied by a factor that reduces its stringency. Similarly, the denominator of the NSFR would equal the required stable funding requirement

calculated under the full NSFR requirement, multiplied by a factor that reduces its stringency. The agencies are requesting comment on applying reduced standards that would be equivalent to between 70 and 85 percent of the full LCR and NSFR requirements. The proposal would not alter other aspects of the LCR and NSFR calculations for these banking organizations, relative to the full LCR and proposed NSFR requirements. For example, these banking organizations would continue to calculate their LCR on each business day and include the maturity mismatch add-on in the calculation.⁵⁰

Like the current LCR and NSFR requirements, the proposal would apply Category III LCR and NSFR requirements to a depository institution that has total consolidated assets of \$10 billion or more and is a consolidated subsidiary of a company subject to Category III standards.⁵¹ The level of the LCR and NSFR requirements applicable to the subsidiary depository institution would be the same as the level that would apply to the parent banking organization. For example, a subsidiary depository institution with \$10 billion in total consolidated assets of a banking organization subject to the reduced LCR and NSFR requirements under Category III standards would also be subject to the reduced LCR and NSFR requirement.⁵²

⁵⁰ Section 30 of the LCR rule requires a banking organization, as applicable, to include in its total net cash outflow amount a maturity mismatch add-on, which is calculated as the difference (if greater than zero) between the covered company's largest net cumulative maturity outflow amount for any of the 30 calendar days following the calculation date and the net day 30 cumulative maturity outflow amount.

⁵¹ As discussed in section II.B.4 of this Supplementary Information section, the proposal would measure the total consolidated assets of a subsidiary depository institution based on the level over the previous four calendar quarters.

⁵² In the case of a depository institution that is not a consolidated subsidiary of a banking organization that would be subject to Category I, II, III, or IV standards or a consolidated subsidiary of a foreign banking organization, the applicable category of standards would depend on the risk-based indicators of the depository institution. For example, if the depository

Question 26: In general, the proposed framework would apply consistent requirements to all banking organizations within each category of standards. For the LCR and proposed NSFR requirements, however, the agencies are proposing two levels of standards within Category III. Specifically, the proposal would apply reduced LCR and NSFR requirements to a banking organization subject to Category III standards that has less than \$75 billion in weighted short-term wholesale funding and that is not a subsidiary of a banking organization subject to the full LCR or proposed NSFR requirements. This additional degree of tailoring is intended to reflect considerations specific to liquidity risk, and would allow further differentiation within Category III to accommodate reduced requirements for banking organizations with lesser liquidity risk profiles. However, this additional risk-sensitivity would also increase the complexity of the proposed framework. The agencies request comment regarding this proposed trade-off. In particular, what do commenters believe would be the advantages and disadvantages of this additional degree of differentiation for purposes of determining the level of LCR and NSFR requirements? What costs, if any, would this additional degree of complexity create for large banking organizations? What alternatives should the agencies consider to the proposed approach that would maintain strong standardized liquidity requirements for large banking organizations with significant liquidity risk exposures that do not meet the proposed criteria for application of Category I or Category II standards? What other risk-based indicators, besides short-term wholesale funding, should the agencies consider in prescribing the liquidity requirements under the proposal, and why? What would be the advantages or disadvantages of requiring all Category III banking organizations to meet the full LCR and

institution meets the criteria for Category III standards but has weighted short-term wholesale funding of less than \$75 billion, the depository institution would be subject to the proposed reduced LCR and NSFR requirements.

NSFR requirements? Similarly, what would be the advantages or disadvantages of requiring all Category III banking organizations to meet the reduced LCR and NSFR requirements?

Question 27: Between a range of 70 and 85 percent of the full requirements, what level should the agencies adopt for the reduced LCR and NSFR requirements for banking organizations subject to Category III standards that have less than \$75 billion in weighted short-term wholesale funding, and why?

Consistent with section 22(b) of the LCR rule, a banking organization subject to the proposed reduced LCR requirement would not be permitted to include in its HQLA amount eligible HQLA of a consolidated subsidiary except up to the amount of the net cash outflows of the subsidiary (as adjusted for the factor reducing the stringency of the requirement), plus any additional amount of assets, including proceeds from the monetization of assets, that would be available for transfer to the top-tier covered company during times of stress without statutory, regulatory, contractual, or supervisory restrictions.⁵³ A similar restriction would apply under section 108 of the NSFR proposed rule.⁵⁴

Question 28: The agencies request comment regarding this proposed approach, as well as potential alternative approaches to recognizing restrictions on the transferability of liquidity from a consolidated subsidiary to the top-tier covered company. What alternative approaches should the agencies consider?

For example, should the agencies consider the approach the Board currently permits for holding companies subject to a modified LCR requirement? Under this approach, a company may include in its HQLA amount eligible HQLA held at a subsidiary up to 100 percent of the net

⁵³ See § __.22(b)(3) and (4) of the LCR rule (12 CFR 50.22(b)(3) and (4) (OCC); 12 CFR 249.22(b)(3) and (4) (Board); 12 CFR 329.22(b)(3) and (4) (FDIC).

⁵⁴ See NSFR proposed rule § __.108.

cash outflows of the subsidiary, plus amounts that may be transferred without restriction to the top-tier covered company. In the case of the NSFR proposed rule, a company could include available stable funding amounts of the subsidiary up to 100 percent of the required stable funding amount of the subsidiary, plus amounts that may be transferred without restriction to the top-tier covered company. What would be the advantages and disadvantages of the proposed approach and potential alternatives? What incentives would each have with respect to the positioning of HQLA within a banking organization? What effects would the proposed approach or alternative approaches have on the safety and soundness of a holding company and its subsidiary depository institutions?

4. Category IV standards

Under the proposal, Category IV standards would apply to banking organizations with \$100 billion or more in total consolidated assets that do not meet the criteria for Categories I, II, or III, and their subsidiary depository institutions. Relative to current requirements, the proposed Category IV standards would reduce liquidity and, in certain circumstances, capital requirements to reflect these banking organizations' lower risk profile and lesser degree of complexity relative to other large banking organizations.

Category IV capital standards would include the generally applicable risk-based capital requirements and the U.S. leverage ratio. The proposal would not apply the countercyclical capital buffer and the supplementary leverage ratio applicable under Category III to Category IV banking organizations. In this manner, the standards applicable to banking organizations subject to Category IV would maintain the risk-sensitivity of the current capital regime and resiliency of these banking organizations' capital positions, and would recognize that these banking organizations, while large, have lower indicators of risk relative to their larger peers, as

set forth in the proposal. As a result, and as noted above, banking organizations subject to Category IV standards would generally have the same capital and liquidity regulatory requirements as banking organizations under \$100 billion in total consolidated assets.

Under the proposal, Category IV standards would not include an LCR or NSFR requirement. As a result, the Board is proposing to remove the current modified LCR requirement and the proposed modified NSFR requirement for domestic banking organizations.⁵⁵ The LCR rule and NSFR proposed rule are important standards for Category I, Category II, and Category III given such banking organizations' size, complexity, and the resulting challenges that may complicate the resolution of such banking organizations. However these standardized liquidity requirements are less important for banking organizations subject to Category IV standards given their smaller systemic footprint, more limited size, and other applicable requirements. As a class, the domestic banking organizations currently in this category have more traditional balance sheet structures, are largely funded by stable deposits, and have little reliance on less stable wholesale funding. All banking organizations that would be subject to Category IV have less than \$75 billion in weighted short-term wholesale funding. Board estimates of stable funding for these banking organizations indicate they would exceed by roughly 40 percent the modified 70 percent NSFR requirement that would apply under the agencies' NSFR proposed rule. These banking organizations would also continue to be subject

⁵⁵ The proposal would also remove the modified LCR and proposed modified NSFR requirements for banking organizations with total consolidated assets less than \$100 billion. As previously noted, the Board plans to develop a separate proposal relating to foreign banking organizations. Accordingly, the proposal would maintain the current full and modified LCR requirements, as applicable, for banking organizations that are consolidated subsidiaries of a foreign banking organization until such time as the Board adopts a final rule to amend the requirements for these banking organizations.

to the internal liquidity stress testing requirements at the consolidated holding company level under the Board's regulations, which include 30-day and 1-year planning horizons, and Complex Institution Liquidity Monitoring Report (FR 2052a) requirements.⁵⁶ Based on this combination of factors, and given the compliance and disclosure obligations under the LCR rule and proposed NSFR rule, the agencies are proposing to no longer apply the LCR rule and proposed NSFR rule to banking organizations subject to Category IV standards.

Question 29: Based on the risk profiles of banking organizations subject to Category IV standards, what alternative capital and liquidity requirements should the agencies consider and why?

Question 30: The proposal would not apply the LCR or the proposed NSFR rules to banking organizations subject to Category IV standards. What are the advantages and disadvantages of this approach? To what extent would scoping out banking organizations subject to Category IV standards from the LCR and proposed NSFR rules affect the safety and soundness of individual banking organizations or raise broader financial stability concerns? To what extent does maintaining liquidity risk management and internal liquidity stress testing and buffer requirements at the holding company level for these firms under the Board-only proposal mitigate these concerns? What are the advantages and disadvantages of maintaining standardized liquidity requirements, such as the current LCR requirement and proposed NSFR requirement, for firms subject to Category IV standards? If the Board were to apply some or all of the LCR and proposed NSFR requirements to these firms, what, if any, other regulatory requirements should the Board consider reducing or removing?

⁵⁶ The Board-only proposal provides further discussion of liquidity standards that would apply under the Board's regulations to firms that would be subject to Category IV standards.

III. Impact Analysis

The Board assessed the potential impact of the proposed rule, taking into account potential benefits in the form of increased net interest margins from holding higher yielding assets, reduced compliance costs, and increased regulatory flexibility, and potential costs related to increased risk to holding companies during a period of elevated economic stress or market volatility.⁵⁷

The Board expects the proposal to have no material impact on the capital levels of banking organizations that would be subject to Category I or II standards. For banking organizations that would be subject to Category III or IV standards, the Board expects the proposal to slightly lower capital requirements under current conditions (by approximately \$8 billion, or 60 basis points of total risk-weighted assets among these banking organizations) and reduce compliance costs for certain banking organizations related to the advanced approaches capital requirements. The impact on capital levels for banking organizations subject to Category III and IV standards could vary under different economic and market conditions. For example, from 2001 to 2018, the aggregate AOCI for banking organizations subject to Category III or Category IV standards that included AOCI in capital has ranged from a decrease of approximately 140 basis points of total risk-weighted assets to an increase of approximately 50 basis points of total risk-weighted assets.

For purposes of assessing the potential impact of the proposed changes to the liquidity standards, the Board's assessment focused on the impact of the proposed change in the

⁵⁷ As noted in section IV.D of this Supplementary Information, the OCC also considered the potential costs of the proposed rule for the purpose of the Unfunded Mandates Reform Act of 1996 (2 U.S.C. 1532).

applicability and the stringency of the Board's existing liquidity standards under the LCR rule.⁵⁸ The Board quantified the impact of the proposed LCR tailoring on the HQLA of affected holding companies.⁵⁹ In the analysis, the Board assumed that holding companies subject to Category III standards and holding companies subject to Category IV standards would respond differently to the new regulatory requirements. For holding companies subject to Category III requirements, the proposal would generally result in a decrease in LCR minimum requirements that could range from 70 to 85 percent of the full LCR requirements if the firm has less than \$75 billion in weighted short-term wholesale funding. The Board assumes that holding companies subject to Category III standards would adjust their HQLA so that they choose the higher of the following two options: (i) preserve the same LCR, in percentage point terms, they had in the first quarter of 2018, measured using the new requirement, or (ii) meet their internal liquidity stress test (ILST) requirement.⁶⁰ As holding companies subject to Category IV standards would no longer be subject to an LCR requirement under the proposal, the Board assumed that these firms would adjust their liquid asset holdings such that they choose the higher of the following: (i) match the HQLA levels of holding companies that are currently not subject to the LCR rule or (ii) meet

⁵⁸ Because the NSFR and modified NSFR requirements have not yet been finalized, banking organizations are not currently subject to those minimum requirements. As a result, the Board did not assess any changes in impact as a result of amending its scope of application.

⁵⁹ The Board's analysis estimates the impact of reducing the LCR requirement for holding companies that would be subject to Category III or Category IV standards using data submitted on the FR 2052a and FR Y9-C by these holding companies for the 2018Q1 reporting period.

⁶⁰ For example, in the case of a holding company that would be subject to Category III standards and the reduced LCR and NSFR requirements under the proposal, if the firm's current LCR requirement is greater than its ILST-based liquidity buffer requirement, and the firm currently maintains an LCR of 120 percent relative to the currently applicable full LCR requirement, the approach would assume the firm will reduce its HQLA by 30 percent under a 70 percent LCR requirement.

their internal liquidity stress test requirement. The Board assumed that the net cash outflows of holding companies, the denominator of the LCR, remains unchanged.

The Board estimates that under a 70 percent LCR requirement, holding companies subject to Category III standards that have less than \$75 billion in weighted short-term wholesale funding would reduce HQLA by approximately \$43 billion.⁶¹ With regard to the holding companies subject to Category IV standards, the Board estimates a reduction in HQLA of approximately \$34 billion. The combined reduction represents a 2.5 percent reduction of aggregate HQLA among holding companies with \$100 billion or more in total consolidated assets. As a result, the Board projects that the reduction in LCR requirements would modestly reduce the liquidity buffers held at affected holding companies.

In the second part of the analysis, the Board estimated how the proposal would affect the net interest margin, loan growth, and the probability that these holding companies could experience liquidity pressure during a period of elevated stress or volatility (outcome variables). The Board implemented this analysis by using regression models for the above variables. As an input to these regression models, the Board used the estimates for the proposal's direct effects on HQLA to infer its indirect effects on the outcome variables.

The Board estimates that the reduction in the LCR requirements would modestly increase the net interest margin at affected holding companies. Reducing the LCR calibration to 70 percent for banking organizations subject to Category III standards that have less than \$75 billion in weighted short-term wholesale funding and removing the LCR for holding

⁶¹ The estimated drop in HQLA, assuming an 85 percent LCR for holding companies subject to Category III standards that have less than \$75 billion in weighted short-term wholesale funding, would be approximately \$20 billion (or 0.6 percent reduction of aggregate HQLA among holding companies with \$100 billion or more in total consolidated assets).

companies subject to Category IV standards would moderately increase the likelihood that these holding companies could experience liquidity pressure during times of stress.⁶² The Board-only proposal would continue to require these holding companies to conduct internal liquidity stress tests and hold highly liquid assets sufficient to meet projected 30-day net stressed cash-flow needs under internal stress scenarios. In addition, the Board will continue to assess the safety and soundness of these holding companies through the normal course of supervision.

IV. Administrative law matters

A. Paperwork Reduction Act

Certain provisions of the proposed rule contain “collection of information” requirements within the meaning of the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3521). In accordance with the requirements of the PRA, the agencies may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The OMB control number for the OCC is 1557-0318, Board is 7100-0313, and FDIC is 3064-0153. These information collections will be extended for three years, with revision. The information collection requirements contained in this proposed rulemaking have been submitted by the OCC and FDIC to OMB for review and approval under section 3507(d) of the PRA (44 U.S.C. 3507(d)) and section 1320.11 of the OMB’s implementing regulations (5 CFR 1320). The Board reviewed the proposed rule under the authority delegated to the Board by OMB.

Comments are invited on:

⁶² If the agencies calibrate the LCR requirement at 85 percent for banking organizations subject to Category III standards with less than \$75 billion in weighted short-term wholesale funding, the Board estimates the likelihood of experiencing material financial distress during a period of elevated economic stress or market volatility would increase only modestly.

- a. Whether the collections of information are necessary for the proper performance of the agencies' functions, including whether the information has practical utility;
- b. The accuracy or the estimate of the burden of the information collections, including the validity of the methodology and assumptions used;
- c. Ways to enhance the quality, utility, and clarity of the information to be collected;
- d. Ways to minimize the burden of the information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and
- e. Estimates of capital or startup costs and costs of operation, maintenance, and purchase of services to provide information.

All comments will become a matter of public record. Comments on aspects of this notice that may affect reporting, recordkeeping, or disclosure requirements and burden estimates should be sent to the addresses listed in the ADDRESSES section of this document. A copy of the comments may also be submitted to the OMB desk officer for the agencies by mail to U.S. Office of Management and Budget, 725 17th Street NW, #10235, Washington, DC 20503; facsimile to (202) 395-6974; or e-mail to oir_submission@omb.eop.gov, Attention, Federal Banking Board Desk Officer.

Information Collection Proposed to be Revised

Title of Information Collection: Recordkeeping and Disclosure Requirements Associated with Capital Adequacy.

Frequency: Quarterly, annual.

Affected Public: Businesses or other for-profit.

Respondents:

OCC: National banks and federal savings associations.

Board: State member banks (SMBs), bank holding companies (BHCs), U.S. intermediate holding companies, savings and loan holding companies (SLHCs), and global systemically important bank holding companies (G-SIBs).

FDIC: State nonmember banks and state savings associations.

Current Actions: The proposal would establish a revised framework for determining applicability of requirements under the regulatory capital rule, the liquidity coverage ratio rule, and the proposed net stable funding ratio rule for large U.S. banking organizations based on their risk profile. The proposal would establish four categories of standards and apply tailored capital and liquidity requirements for banking organizations subject to each category. The proposal is consistent with a separate proposal issued by the Board that would apply enhanced prudential standards for large banking organizations based on those four categories of standards. The proposal would not amend the capital and liquidity requirements currently applicable to an intermediate holding company of a foreign banking organization or its subsidiary depository institutions. These changes will not result in changes to the PRA-related burden. Nevertheless, in order to be consistent across the agencies, the agencies would apply a conforming methodology for calculating the PRA-related burden estimates. The agencies would also update the number of respondents based on the current number of supervised entities even though this proposal only affects a limited number of entities. The agencies believe that any changes to the information collections associated with the proposed rule are the result of the conforming methodology and updates to the respondent count, and not the result of the proposed rule changes.

PRA Burden Estimates

OCC

OMB control number: 1557-0318.

Estimated number of respondents: 1,365 (of which 18 are advanced approaches institutions).

Estimated average hours per response:

Minimum Capital Ratios (1,365 institutions affected)

Recordkeeping (Ongoing) – 16.

Standardized Approach (1,365 institutions affected for ongoing)

Recordkeeping (Initial setup) – 122.

Recordkeeping (Ongoing) – 20.

Disclosure (Initial setup) – 226.25.

Disclosure (Ongoing quarterly) – 131.25.

Advanced Approach (18 institutions affected for ongoing)

Recordkeeping (Initial setup) – 460.

Recordkeeping (Ongoing) – 540.77.

Recordkeeping (Ongoing quarterly) – 20.

Disclosure (Initial setup) – 280.

Disclosure (Ongoing) – 5.78.

Disclosure (Ongoing quarterly) – 35.

Estimated annual burden hours: 1,088 hours initial setup, 64,929 hours for ongoing.

Board

Agency form number: FR Q.

OMB control number: 7100-0313.

Estimated number of respondents: 1,431 (of which 17 are advanced approaches institutions).

Estimated average hours per response:

Minimum Capital Ratios (1,431 institutions affected for ongoing)

Recordkeeping (Ongoing) – 16.

Standardized Approach (1,431 institutions affected for ongoing)

Recordkeeping (Initial setup) – 122.

Recordkeeping (Ongoing) – 20.

Disclosure (Initial setup) – 226.25.

Disclosure (Ongoing quarterly) – 131.25.

Advanced Approach (17 institutions affected)

Recordkeeping (Initial setup) – 460.

Recordkeeping (Ongoing) – 540.77.

Recordkeeping (Ongoing quarterly) – 20.

Disclosure (Initial setup) – 280.

Disclosure (Ongoing) – 5.78.

Disclosure (Ongoing quarterly) – 35.

Disclosure (Table 13 quarterly) – 5.

Risk-based Capital Surcharge for GSIBs (21 institutions affected)

Recordkeeping (Ongoing) – 0.5.

Estimated annual burden hours: 1,088 hours initial setup, 78,183 hours for ongoing.

FDIC

OMB control number: 3064-0153.

Estimated number of respondents: 3,575 (of which 2 are advanced approaches institutions).

Estimated average hours per response:

Minimum Capital Ratios (3,575 institutions affected)

Recordkeeping (Ongoing) – 16.

Standardized Approach (3,575 institutions affected for ongoing)

Recordkeeping (Initial setup) – 122.

Recordkeeping (Ongoing) – 20.

Disclosure (Initial setup) – 226.25.

Disclosure (Ongoing quarterly) – 131.25.

Advanced Approach (2 institutions affected for ongoing)

Recordkeeping (Initial setup) – 460.

Recordkeeping (Ongoing) – 540.77.

Recordkeeping (Ongoing quarterly) – 20.

Disclosure (Initial setup) – 280.

Disclosure (Ongoing) – 5.78.

Disclosure (Ongoing quarterly) – 35.

Estimated annual burden hours: 1,088 hours initial setup, 130,758 hours for ongoing.

The proposed rule would also require changes to the Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031, FFIEC 041, and FFIEC 051; OMB Nos. 1557-0081 (OCC), 7100-0036 (Board), and 3064-0052 (FDIC)) and Risk-Based Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101; OMB Nos. 1557-0239 (OCC), 7100-0319 (Board), and 3064-0159 (FDIC)), which will be addressed in a separate *Federal Register* notice.

B. Regulatory Flexibility Act Analysis

OCC: The Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.*, (RFA), requires an agency, in connection with a proposed rule, to prepare an Initial Regulatory Flexibility Analysis describing the impact of the rule on small entities (defined by the SBA for purposes of the RFA to include commercial banks and savings institutions with total consolidated assets of \$550 million or less and trust companies with total consolidated assets of \$38.5 million or less) or to certify that the proposed rule would not have a significant economic impact on a substantial number of small entities.

As of June 30, 2018, the OCC supervises 886 small entities.⁶³

As part of our analysis, we consider whether the proposal will have a significant economic impact on a substantial number of small entities, pursuant to the RFA. This proposal only applies to large banking organizations, therefore, it will not impact any OCC-supervised

⁶³ The OCC calculated the number of small entities using the SBA's size thresholds for commercial banks and savings institutions, and trust companies, which are \$550 million and \$38.5 million, respectively. Consistent with the General Principles of Affiliation, 13 CFR 121.103(a), the OCC counted the assets of affiliated financial institutions when determining whether to classify a national bank or Federal savings association as a small entity.

small entities. For this reason, the OCC certifies that the proposed rule would not have a significant economic impact on a substantial number of OCC-supervised small entities.

Board: The RFA requires an agency to either provide an initial regulatory flexibility analysis with a proposal or certify that the proposal will not have a significant impact on a substantial number of small entities. Under regulations issued by the SBA, a small entity includes a bank, bank holding company, or savings and loan holding company with assets of \$550 million or less (small banking organization).⁶⁴ As of June 30, 2018, there were approximately 3,304 small bank holding companies, 216 small savings and loan holding companies, and 535 small SMBs.

The Board has considered the potential impact of the proposed rule on small entities in accordance with the RFA. Based on the Board's analysis, and for the reasons stated below, the Board believes that this proposed rule will not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is providing an initial regulatory flexibility analysis with respect to this proposed rule. A final regulatory flexibility analysis will be conducted after comments received during the public comment period have been considered. The Board welcomes comment on all aspects of its analysis. In particular, the Board requests that commenters describe the nature of any impact on small entities and provide empirical data to illustrate and support the extent of the impact.

⁶⁴ See 13 CFR 121.201. Effective July 14, 2014, the SBA revised the size standards for banking organizations to \$550 million in assets from \$500 million in assets. 79 FR 33647 (June 12, 2014).

As discussed in the SUPPLEMENTARY INFORMATION, the Board is proposing to adopt amendments to the Board's capital rule⁶⁵ and LCR rule.⁶⁶ The capital rule applies to all state member banks, bank holding companies, and covered savings and loan holding companies, except for institutions that are subject to the Board's Small Bank Holding Company and Small Savings and Loan Holding Company Policy Statement, which apply to bank holding companies and savings and loan holding companies with less than \$3 billion in total consolidated assets that also meet certain additional criteria.⁶⁷ The proposed changes to the capital rule generally affect state member banks, bank holding companies, and covered savings and loan holding companies with \$50 billion or more in total consolidated assets. Thus, most state member banks, bank holding companies, and covered savings and loan holding companies that would be subject to the proposed rule exceed the \$550 million asset threshold at which a banking organization would qualify as a small banking organization.

The Board is also proposing changes to regulatory requirements under the LCR rule. The LCR rule applies to state member banks, bank holding companies and covered savings and loan holding companies with (i) \$250 billion or more in total consolidated assets; or (ii) total consolidated on-balance sheet foreign exposure equal to \$10 billion or more. The LCR rule also applies to state member banks with total consolidated assets equal to \$10 billion or more that are consolidated subsidiaries of a covered bank holding company. The modified LCR, which is part of the LCR rule, applies to certain bank holding companies and covered savings and loan holding companies with \$50 billion or more in total consolidated assets. Most institutions that are

⁶⁵ See 12 CFR part 217.

⁶⁶ See 12 CFR part 249.

⁶⁷ See 12 CFR 217.1(c)(1)(ii) and (iii); 12 CFR part 225, appendix C; 12 CFR 238.9.

affected by the proposal therefore substantially exceed the \$550 million asset threshold at which a banking entity is considered a “small entity” under SBA regulations.

The agencies anticipate proposing updates to the relevant reporting forms at a later date to the extent necessary to align with the proposed changes to the capital rule and LCR rule. Given that the proposed rule does not impact the recordkeeping and reporting requirements to which that affected small banking organizations are currently subject, there would be no change to the information that small banking organizations must track and report.

The Board does not believe that the proposed rule duplicates, overlaps, or conflicts with any other Federal rules. In addition, there are no significant alternatives to the proposed rule. In light of the foregoing, the Board does not believe that the proposed rule, if adopted in final form, would have a significant economic impact on a substantial number of small entities.

FDIC: The Regulatory Flexibility Act (RFA), 5 U.S.C. 601 et seq., generally requires an agency, in connection with a proposed rule, to prepare and make available for public comment an initial regulatory flexibility analysis that describes the impact of a proposed rule on small entities.⁶⁸ However, a regulatory flexibility analysis is not required if the agency certifies that the rule will not have a significant economic impact on a substantial number of small entities. The Small Business Administration (SBA) has defined “small entities” to include banking organizations with total assets of less than or equal to \$550 million who are independently owned and operated or owned by a holding company with less than \$550 million in total assets.⁶⁹

⁶⁸ 5 U.S.C. 601 et seq.

⁶⁹ The SBA defines a small banking organization as having \$550 million or less in assets, where “a financial institution’s assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year.” See 13 CFR 121.201 (as amended, effective December 2, 2014). “SBA counts the receipts, employees, or other measure of size of

For the reasons described below and under section 605(b) of the RFA, the FDIC certifies that the proposed rule will not have a significant economic impact on a substantial number of small entities.

The FDIC supervises 3,575 institutions, of which 2,763 are considered small entities for the purposes of RFA.⁷⁰

This proposed rule will affect all institutions subject to the current advanced approaches regulations and their subsidiaries. The FDIC does not supervise any advanced approaches banking organizations or subsidiaries thereof that have \$550 million or less in total consolidated assets.⁷¹ Since this proposal does not affect any institutions that are defined as small entities for the purposes of the RFA, the FDIC certifies that the proposed rule will not have a significant economic impact on a substantial number of small entities.

The FDIC invites comments on all aspects of the supporting information provided in this RFA section. In particular, would this rule have any significant effects on small entities that the FDIC has not identified?

C. Plain Language

Section 722 of the Gramm-Leach-Bliley Act⁷² requires the Federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The agencies

the concern whose size is at issue and all of its domestic and foreign affiliates.” See 13 CFR 121.103. Following these regulations, the FDIC uses a covered entity’s affiliated and acquired assets, averaged over the preceding four quarters, to determine whether the covered entity is “small” for the purposes of RFA.

⁷⁰ Call Report data, June 30th, 2018.

⁷¹ Call Report data, June 30th 2018.

⁷² Pub. L. 106-102, section 722, 113 Stat. 1338, 1471 (1999).

have sought to present the proposed rule in a simple and straightforward manner, and invite comment on the use of plain language. For example:

- Have the agencies organized the material to suit your needs? If not, how could they present the proposed rule more clearly?
- Are the requirements in the proposed rule clearly stated? If not, how could the proposed rule be more clearly stated?
- Do the regulations contain technical language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand? If so, what changes would achieve that?
- Would more, but shorter, sections be better? If so, which sections should be changed?"
- What other changes can the agencies incorporate to make the regulation easier to understand?

D. OCC Unfunded Mandates Reform Act of 1995 Determination

The OCC analyzed the proposed rule under the factors set forth in the Unfunded Mandates Reform Act of 1995 (UMRA) (2 U.S.C. 1532). Under this analysis, the OCC considered whether the proposed rule includes a Federal mandate that may result in the expenditure by State, local, and Tribal governments, in the aggregate, or by the private sector, of \$100 million or more in any one year (adjusted for inflation). The OCC has determined that this proposed rule would not result in expenditures by State, local, and Tribal governments, or the

private sector, of \$100 million or more in any one year. Accordingly, the OCC has not prepared a written statement to accompany this proposal.

E. Riegle Community Development and Regulatory Improvement Act of 1994

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act (RCDRIA),⁷³ in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions, each Federal banking agency must consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository institutions, and customers of depository institutions, as well as the benefits of such regulations. In addition, section 302(b) of RCDRIA requires new regulations and amendments to regulations that impose additional reporting, disclosures, or other new requirements on insured depository institutions generally to take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final form.⁷⁴

The agencies note that comment on these matters has been solicited in other sections of this Supplementary Information section, and that the requirements of RCDRIA will be considered as part of the overall rulemaking process. In addition, the agencies also invite any other comments that further will inform the agencies' consideration of RCDRIA.

⁷³ 12 U.S.C. 4802(a).

⁷⁴ *Id.*

List of Subjects in 12 CFR

Part 217

Administrative practice and procedure, Banks, Banking, Capital, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Risk, Securities.

Part 249

Administrative practice and procedure, Banks, Banking, Federal Reserve System; Holding companies; Liquidity; Reporting and recordkeeping requirements.

Authority and Issuance

For the reasons stated in the Supplementary Information, Chapter II of title 12 of the Code of Federal Regulations is proposed to be amended as follows:

PART 217—CAPITAL ADEQUACY OF BANK HOLDING COMPANIES, SAVINGS AND LOAN HOLDING COMPANIES, AND STATE MEMBER BANKS (REGULATION Q)

[]]. The authority citation for part 217 continues to read as follows:

Authority: 12 U.S.C. 248(a), 321-338a, 481-486, 1462a, 1467a, 1818, 1828, 1831n, 1831o, 1831p-1, 1831w, 1835, 1844(b), 1851, 3904, 3906-3909, 4808, 5365, 5368, 5371.

[]]. In §217.2, revise the definition of Advanced approaches Board-regulated institution and add the definitions of Category II Board-regulated institution, Category III Board-regulated institution, FR Y-9LP, and FR Y-15 in alphabetical order to read as follows:

§ 217.2 Definitions.

* * * * *

Advanced-approaches Board-regulated institution means:

- (1) A Board-regulated institution that is described §217.100(b)(1); or
- (2) A U.S. intermediate holding company that was established or designated by a foreign banking organization pursuant to 12 CFR 252.153

(i) That:

(A) Has total consolidated assets (excluding assets held by an insurance underwriting subsidiary), as defined on schedule HC-K of the FR Y-9C, equal to \$250 billion or more;

(B) Has consolidated total on-balance sheet foreign exposure on its most recent year-end Federal Financial Institutions Examination Council (FFIEC) 009 Report equal to \$10 billion or more (where total on-balance sheet foreign exposure equals total foreign countries cross-border claims on an ultimate-risk basis, plus total foreign countries claims on local residents on an ultimate-risk basis, plus total foreign countries fair value of foreign exchange and derivative products), calculated in accordance with the FFIEC 009 Country Exposure Report; or

(C) Has a subsidiary depository institution that is required, or has elected, to use 12 CFR part 3, subpart E (OCC), 12 CFR part 217, subpart E (Board), or 12 CFR part 324, subpart E (FDIC) to calculate its risk-based capital requirements.

Category II Board-regulated institution means

(1) A depository institution holding company that is identified as a Category II banking organization pursuant to 12 CFR 252.5 or 12 CFR 238.10, as applicable;

(2) A state member bank that is a subsidiary of a company identified in paragraph (1) of this definition; or

(3) A state member bank that:

(i) (A) Has total consolidated assets, calculated based on the average of the state member bank's total consolidated assets for the four most recent calendar quarters as reported on the Call Report, equal to \$700 billion or more. If the state member bank has not filed the Call Report for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent quarter or quarters, as applicable; or

(B) Has:

(1) Total consolidated assets, calculated based on the average of the state member bank's total consolidated assets for the four most recent calendar quarters as reported on the Call Report, of \$100 billion or more but less than \$700 billion. If the state member bank has not filed the Call Report for each of the four most recent quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent quarter or quarters, as applicable; and

(2) Cross-jurisdictional activity, calculated based on the average of its cross-jurisdictional activity for the four most recent calendar quarters, of \$75 billion or more. Cross-jurisdictional activity is the sum of cross-jurisdictional claims and cross-jurisdictional liabilities, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form.

(ii) After meeting the criteria in paragraph (3)(i) of this section, a state member bank continues to be a Category II Board-regulated institution until the state member bank:

(A) Has:

(1) Less than \$700 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters; and

(2) Less than \$75 billion in cross-jurisdictional activity for each of the four most recent calendar quarters. Cross-jurisdictional activity is the sum of cross-jurisdictional claims and cross-jurisdictional liabilities, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form;

(B) Less than \$100 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters; or

(C) Is a subsidiary of a global systemically important BHC.

Category III Board-regulated institution means

(1) A depository institution holding company that is identified as a Category III banking organization pursuant to 12 CFR 252.5 or 12 CFR 238.10, as applicable;

(2) A state member bank that is a subsidiary of a company identified in paragraph (1) of this definition; or

(3) A state member bank that:

(i) (A) Has total consolidated assets, calculated based on the average of the state member bank's total consolidated assets for the four most recent calendar quarters as reported on the Call Report, equal to \$250 billion or more. If the state member bank has not filed the Call Report for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent quarter or quarters, as applicable; or

(B) Has:

(1) Total consolidated assets, calculated based on the average of the state member bank's total consolidated assets for the four most recent calendar quarters as reported on the Call Report, of \$100 billion or more but less than \$250 billion. If the state member bank has not filed the Call

Report for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent quarter or quarters, as applicable; and

(2) At least one of the following, each calculated as the average of the four most recent calendar quarters, or if the state member bank has not filed each applicable reporting form for each of the four most recent calendar quarters, for the most recent quarter or quarters, as applicable:

(i) Total nonbank assets, calculated in accordance with the instructions to the FR Y-9LP or equivalent reporting form, equal to \$75 billion or more;

(ii) Off-balance sheet exposure equal to \$75 billion or more. Off-balance sheet exposure is a state member bank's total exposure, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form, minus the total consolidated assets of the state member bank, as reported on the Call Report; or

(iii) Weighted short-term wholesale funding, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form, equal to \$75 billion or more.

(ii) After meeting the criteria in paragraph (3)(i), a state member bank continues to be a Category III Board-regulated institution until the state member bank:

(A) Has:

(1) Less than \$250 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters;

(2) Less than \$75 billion in total nonbank assets, calculated in accordance with the instructions to the FR Y-9LP or equivalent reporting form, for each of the four most recent calendar quarters;

(3) Less than \$75 billion in weighted short-term wholesale funding, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form, for each of the four most recent calendar quarters; and

(4) Less than \$75 billion in off-balance sheet exposure for each of the four most recent calendar quarters. Off-balance sheet exposure is a state member bank's total exposure, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form, minus the total consolidated assets of the state member bank, as reported on the Call Report; or

(B) Has less than \$100 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters;

(C) Is a Category II Board-regulated institution; or

(D) Is a subsidiary of a global systemically important BHC.

FR Y-15 means the Banking Organization Systemic Risk Report.

FR Y-9LP means the Parent Company Only Financial Statements for Large Holding Companies.

* * * * *

[]. In §217.10, revise paragraphs (a)(5), (c), and (c)(4) to read as follows:

§ 217.10 Minimum capital requirements.

* * * * *

(a)(5) For advanced approaches Board-regulated institutions or, for Category III Board-regulated institutions, a supplementary leverage ratio of 3 percent.

* * * * *

(c) Advanced approaches capital ratio calculations. An advanced approaches Board-regulated institution that has completed the parallel run process and received notification from the Board pursuant to §217.121(d) must determine its regulatory capital ratios as described in paragraphs (c)(1) through (3) of this section. An advanced approaches Board-regulated institution must determine its supplementary leverage ratio in accordance with paragraph (c)(4) of this section, beginning with the calendar quarter immediately following the quarter in which the Board-regulated institution meets any of the criteria in §217.100(b)(1). A Category III Board-regulated institution must determine its supplementary leverage ratio in accordance with paragraph (c)(4) of this section, beginning with the calendar quarter immediately following the quarter in which the Board-regulated institution is identified as a Category III Board-regulated institution.

* * * * *

(4) Supplementary leverage ratio. (i) An advanced approaches Board-regulated institution's or a Category III Board-regulated institution's supplementary leverage ratio is the ratio of its tier 1 capital to total leverage exposure, the latter which is calculated as the sum of:

* * * * *

[], In §217.11, revise paragraph (b)(1) as follows:

§ 217.11 Capital conservation buffer, countercyclical capital buffer amount, and GSIB surcharge.

* * * * *

(b) Countercyclical capital buffer amount. (1) General. An advanced approaches Board-regulated institution or a Category III Board-regulated institution must calculate a countercyclical capital buffer amount in accordance with the following paragraphs for purposes of determining its maximum payout ratio under Table 1 to §217.11.

(i) * * *

(ii) Amount. An advanced approaches Board-regulated institution or a Category III Board-regulated institution has a countercyclical capital buffer amount determined by calculating the weighted average of the countercyclical capital buffer amounts established for the national jurisdictions where the Board-regulated institution's private sector credit exposures are located, as specified in paragraphs (b)(2) and (3) of this section.

* * * * *

[]. In §217.100, paragraph (b) is revised to read as follows:

§ 217.100 Purpose, applicability, and principle of conservatism.

* * * * *

(b) Applicability. (1) This subpart applies to:

(i) A top-tier bank holding company or savings and loan holding company domiciled in the United States that:

(A) Is not a consolidated subsidiary of another bank holding company or savings and loan holding company that uses 12 CFR part 217, subpart E, to calculate its risk-based capital requirements; and

(B) That:

(1) Is identified as a global systemically important BHC pursuant to 12 CFR 217.402;

(2) Is identified as a Category II banking organization pursuant to 12 CFR 252.5 or 12 CFR 238.10; or

(3) Has a subsidiary depository institution that is required, or has elected, to use 12 CFR part 3, subpart E (OCC), 12 CFR part 217, subpart E (Board), or 12 CFR part 324, subpart E (FDIC) to calculate its risk-based capital requirements;

(ii) A state member bank that:

(A) Is a subsidiary of a global systemically important BHC;

(B) Is a Category II Board-regulated institution;

(C) Is a subsidiary of a depository institution that uses 12 CFR part 3, subpart E (OCC), 12 CFR part 217, subpart E (Board), or 12 CFR part 324, subpart E (FDIC) to calculate its risk-based capital requirements; or

(D) Is a subsidiary of a bank holding company or savings and loan holding company that uses 12 CFR part 217, subpart E, to calculate its risk-based capital requirements; or

(iii) Any Board-regulated institution that elects to use this subpart to calculate its risk-based capital requirements.

* * * * *

[] In §217.406, paragraph (b)(2) is revised to read as follows:

§ 217.406 Short-term wholesale funding score

* * * * *

(b) * * *

(2) Short-term wholesale funding includes the following components:

* * * * *

PART 249—LIQUIDITY RISK MEASUREMENT STANDARDS (REGULATION WW)

[]]. The authority citation for part 249 continues to read as follows:

Authority: 12 U.S.C. 248(a), 321-338a, 481-486, 1467a(g)(1), 1818, 1828, 1831p-1, 1831o-1, 1844(b), 5365, 5366, 5368.

[]]. In §249.1, paragraph (b)(1) is revised to read as follows:

§ 249.1 Purpose and applicability.

* * * * *

(b) Applicability of Minimum Liquidity Standards. (1) A Board-regulated institution is subject to the minimum liquidity standard and other requirements of this part if:

(i) It is a global systemically important BHC, a GSIB depository institution, a Category II Board-regulated institution, or a Category III Board-regulated institution;

(ii) It is a covered intermediate holding company that:

(A) Has total consolidated assets of \$250 billion or more, as reported on the most recent year-end (as applicable):

(1) Consolidated Financial Statements for Holding Companies reporting form (FR Y-9C), or, if the covered intermediate holding company is not required to report on the FR Y-9C, its estimated total consolidated assets as of the most recent year-end, calculated in accordance with the instructions to the FR Y-9C; or

(2) Call Report; or

(B) Has total consolidated on-balance sheet foreign exposure at the most recent year-end equal to \$10 billion or more (where total on-balance sheet foreign exposure equals total cross-border claims less claims with a head office or guarantor located in another country plus redistributed guaranteed amounts to the country of the head office or guarantor plus local country claims on local residents plus revaluation gains on foreign exchange and derivative transaction

products, calculated in accordance with the Federal Financial Institutions Examination Council (FFIEC) 009 Country Exposure Report);

(iii) It is a depository institution that is a consolidated subsidiary of a covered intermediate holding company described in paragraph (b)(1)(ii) of this section and has total consolidated assets equal to \$10 billion or more, as reported on the most recent year-end Call Report;

(iv) It is a covered nonbank company;

(v) It is a covered intermediate holding company that meets the criteria in §249.60(a) but does not meet the criteria in paragraph (b)(1)(ii) of this section, and is subject to complying with the requirements of this part in accordance with subpart G of this part; or

(vi) The Board has determined that application of this part is appropriate in light of the Board-regulated institution's asset size, level of complexity, risk profile, scope of operations, affiliation with foreign or domestic covered entities, or risk to the financial system.

(2) (i) A Board-regulated institution that becomes subject to the minimum liquidity standard and other requirements of this part under paragraph (b)(1)(i) must comply with the requirements of this part beginning on the first day of the second calendar quarter after which the Board-regulated institution becomes subject to the minimum liquidity standard and other requirements of this part, except:

(A) A Board-regulated institution must calculate and maintain a liquidity coverage ratio monthly, on each calculation date that is the last business day of the applicable calendar month, for the first three calendar quarters after the Board-regulated institution begins complying with the minimum liquidity standard and other requirements of this part;

(B) Beginning one year after the first year in which the Board-regulated institution becomes subject to the minimum liquidity standard and other requirements of this part under paragraph (b)(1)(i) of this section, and thereafter, the Board-regulated institution must calculate and maintain a liquidity coverage ratio on each calculation date;

(ii) A Board-regulated institution that becomes subject to the minimum liquidity standard and other requirements of this part under paragraphs (b)(1)(ii) or (b)(1)(iii) of this section after September 30, 2014, must comply with the requirements of this part beginning on April 1 of the year in which the Board-regulated institution becomes subject to the minimum liquidity standard and other requirements of this part, except:

(A) From April 1 to December 31 of the year in which the Board-regulated institution becomes subject to the minimum liquidity standard and other requirements of this part, the Board-regulated institution must calculate and maintain a liquidity coverage ratio monthly, on each calculation date that is the last business day of the applicable calendar month; and

(B) Beginning January 1 of the year after the first year in which the Board-regulated institution becomes subject to the minimum liquidity standard and other requirements of this part under paragraph (b)(1) of this section, and thereafter, the Board-regulated institution must calculate and maintain a liquidity coverage ratio on each calculation date; and

(iii) A Board-regulated institution that becomes subject to the minimum liquidity standard and other requirements of this part under paragraph (b)(1)(vi) of this section after September 30, 2014, must comply with the requirements of this part subject to a transition period specified by the Board.

* * * * *

[]. In §249.3, add the definitions of Call Report, Category II Board-regulated institution, Category III Board-regulated institution, Covered intermediate holding company, Global systemically important BHC, GSIB depository institution, Average weighted short-term wholesale funding, FR Y-9LP, and FR Y-15 in alphabetical order to read as follows:

§ 249.3 Definitions.

* * * * *

Average weighted short-term wholesale funding has the same meaning as in 12 CFR 252.2.

Call Report means the Consolidated Reports of Condition and Income.

Category II Board-regulated institution means:

(1) A covered depository institution holding company that is identified as a Category II banking organization pursuant to 12 CFR 252.5 or 12 CFR 238.10;

(2) A state member bank that is a consolidated subsidiary of a company described in paragraphs (1) or (3) and that has total consolidated assets, calculated based on the average of the state member bank's total consolidated assets for the four most recent calendar quarters as reported on the Call Report, equal to \$10 billion or more. If the state member bank has not filed the Call Report for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent quarter or quarters, as applicable. After meeting the criteria under this paragraph (2), a state member bank continues to be a Category II Board-regulated institution until the state member bank has less than \$10 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters, or the state member bank is no longer a consolidated subsidiary of a company described in paragraphs (1) or (3); or

(3) A state member bank that:

(i) (A) Has total consolidated assets, calculated based on the average of the state member bank's total consolidated assets for the four most recent calendar quarters as reported on the Call Report, equal to \$700 billion or more. If the state member bank has not filed the Call Report for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent quarter or quarters, as applicable; or

(B) Has:

(1) Total consolidated assets, calculated based on the average of the state member bank's total consolidated assets for the four most recent calendar quarters as reported on the Call Report, of \$100 billion or more but less than \$700 billion. If the state member bank has not filed the Call Report for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent quarter or quarters, as applicable; and

(2) Cross-jurisdictional activity, calculated based on the average of its cross-jurisdictional activity for the four most recent calendar quarters, of \$75 billion or more. Cross-jurisdictional activity is the sum of cross-jurisdictional claims and cross-jurisdictional liabilities, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form.

(ii) After meeting the criteria in paragraph (3)(i) of this section, a state member bank continues to be a Category II Board-regulated institution until the state member bank:

(A) (1) Has less than \$700 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters; and

(2) Has less than \$75 billion in cross-jurisdictional activity for each of the four most recent calendar quarters. Cross-jurisdictional activity is the sum of cross-jurisdictional claims and cross-jurisdictional liabilities, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form;

(B) Has less than \$100 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters; or

(C) Is a GSIB depository institution.

Category III Board-regulated institution means:

(1) A covered depository institution holding company that is identified as a Category III banking organization pursuant to 12 CFR 252.5 or 12 CFR 238.10, as applicable;

(2) A state member bank that is a consolidated subsidiary of a company described in paragraphs (1) or (3) and that has total consolidated assets, calculated based on the average of the state member bank's total consolidated assets for the four most recent calendar quarters as reported on the Call Report, equal to \$10 billion or more. If the state member bank has not filed the Call Report for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent quarter or quarters, as applicable. After meeting the criteria under this paragraph (2), a state member bank continues to be a Category III Board-regulated institution until the state member bank has less than \$10 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters, or the state member bank is no longer a consolidated subsidiary of a company described in paragraphs (1) or (3); or

(3) A state member bank that:

(i) (A) Has total consolidated assets, calculated based on the average of the state member bank's total consolidated assets in the four most recent quarters as reported quarterly on the most recent Call Report, equal to \$250 billion or more. If the state member bank has not filed the Call Report for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent quarter or quarters, as applicable; or

(B) Has:

(1) Total consolidated assets, calculated based on the average of the state member bank's total consolidated assets in the four most recent calendar quarters as reported quarterly on the most recent Call Report, of \$100 billion or more but less than \$250 billion. If the state member bank has not filed the Call Report for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent quarter or quarters, as applicable; and

(2) One or more of the following, each measured as the average of the four most recent calendar quarters, or if the state member bank has not filed the FR Y-9LP or equivalent reporting form, Call Report, or FR Y-15 or equivalent reporting form, as applicable, for each of the four most recent calendar quarters, for the most recent quarter or quarters, as applicable:

(i) Total nonbank assets, calculated in accordance with instructions to the FR Y-9LP or equivalent reporting form, equal to \$75 billion or more;

(ii) Off-balance sheet exposure, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form, minus the total consolidated assets of the state member bank, as reported on the Call Report, equal to \$75 billion or more; or

(iii) Weighted short-term wholesale funding, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form, equal to \$75 billion or more.

(ii) After meeting the criteria in paragraph (3)(i) of this section, a state member bank continues to be a Category III Board-regulated institution until the state member bank:

(A) (1) Has less than \$250 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters;

(2) Has less than \$75 billion in total nonbank assets, calculated in accordance with the instructions to the FR Y-9LP or equivalent reporting form, for each of the four most recent calendar quarters;

(3) Has less than \$75 billion in weighted short-term wholesale funding, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form, for each of the four most recent calendar quarters; and

(4) Has less than \$75 billion in off-balance sheet exposure for each of the four most recent calendar quarters. Off-balance sheet exposure is a state member bank's total exposure, calculated in accordance with the instructions to the FR Y-15 or equivalent reporting form, minus the total consolidated assets of the state member bank, as reported on the Call Report; or

(B) Has less than \$100 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters;

(C) Is a Category II Board-regulated institution; or

(D) Is a GSIB depository institution.

Covered intermediate holding company means a U.S. intermediate holding company that:

(1) was established or designated by a foreign banking organization pursuant to 12 CFR 252.153; and

(2) Is a covered depository institution holding company.

Global systemically important BHC means a bank holding company identified as a global systemically important BHC pursuant to 12 CFR 217.402.

GSIB depository institution means a depository institution that is a consolidated subsidiary of a global systemically important BHC and has total consolidated assets equal to \$10 billion or more, calculated based on the average of the depository institution's total consolidated assets for the four most recent calendar quarters as reported on the Call Report. If the depository institution has not filed the Call Report for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the Call Report, for the most recent calendar quarter or quarters, as applicable. After meeting the criteria under this definition, a depository institution continues to be a GSIB depository institution until the depository institution has less than \$10 billion in total consolidated assets, as reported on the Call Report, for each of the four most recent calendar quarters, or the depository institution is no longer a consolidated subsidiary of a global systemically important BHC.

FR Y-15 means the Banking Organization Systemic Risk Report.

FR Y-9LP means the Parent Company Only Financial Statements for Large Holding Companies.

* * * * *

[], In § 249.30, paragraph (a) is revised to read as follows:

§ 249.30 Total net cash outflow amount.

(a) Calculation of total net cash outflow amount. As of the calculation date, a Board-regulated institution's total net cash outflow amount equals the Board-regulated institution's outflow adjustment percentage as determined under paragraph (c) of this section multiplied by:

- (1) The sum of the outflow amounts calculated under § 249.32(a) through (l); minus
- (2) The lesser of:
 - (i) The sum of the inflow amounts calculated under § 249.33(b) through (g); and
 - (ii) 75 percent of the amount calculated under paragraph (a)(1) of this section; plus
- (3) The maturity mismatch add-on as calculated under paragraph (b) of this section.

* * * * *

[], In §249.30, paragraph (c) added to read as follows:

(c) Outflow adjustment percentage. A Board-regulated institution's outflow adjustment percentage is determined pursuant to Table 1 to § 249.30.

Table 1 to § 249.30—Outflow adjustment percentages

	Outflow adjustment percentage
Global systemically important BHC or GSIB depository institution	100 percent
Category II Board-regulated institution	100 percent
Category III Board-regulated institution with \$75 billion or more in average weighted short-term wholesale funding and any Category III Board-regulated institution that is a consolidated subsidiary of such a Category III Board-regulated institution	100 percent

Category III Board-regulated institution with less than \$75 billion in average weighted short-term wholesale funding and any Category III Board-regulated institution that is a consolidated subsidiary of such a Category III Board-regulated institution	[70 to 85] percent
Covered intermediate holding company that meets the criteria under section 249.1(b)(1)(ii) of this part and any Board-regulated institution subject to this part that is a consolidated subsidiary of such a covered intermediate holding company. ⁷⁵	100 percent

[] § 249.60, is revised to read as follows:

§ 249.60 Applicability.

(a) Scope. This subpart applies to a covered intermediate holding company that has total consolidated assets equal to \$50 billion or more, based on the average of the Board-regulated institution’s four most recent FR Y-9Cs and does not meet the applicability criteria set forth in § 249.1(b)(1)(ii).

(b) Applicable provisions. Except as otherwise provided in this subpart, the provisions of subparts A through E of this part apply to covered intermediate holding companies that are subject to this subpart.

(c) Applicability. Subject to the transition periods set forth in § 249.61, a Board-regulated institution that first meets the threshold for applicability of this subpart under paragraph (a) of this section after September 30, 2014, must comply with the requirements of this subpart one year after the date it meets the threshold set forth in paragraph (a); except that a Board-regulated

⁷⁵ Covered intermediate holding companies shall remain subject to this part as in effect on October 31, 2018, until the Board amends the liquidity risk measurement standards applicable to the subsidiaries of foreign banking organizations in effect on October 31, 2018.

institution that met the applicability criteria in § 249.1(b) immediately prior to meeting this threshold must comply with the requirements of this subpart beginning on the first day of the first quarter after which it meets the threshold set forth in paragraph (a) of this section.

[], In §249.90, paragraph (b)(3) is revised to read as follows:

§ 249.90(b)(3) Timing, method and retention of disclosures.

* * * * *

(3) A covered depository institution holding company or covered nonbank company that is subject to the minimum liquidity standard and other requirements of this part pursuant to § 249.1(b)(2)(i) or (ii) must provide the disclosures required by this subpart for the first calendar quarter beginning no later than the date it is first required to comply with the requirements of this part pursuant to § 249.1(b)(2)(i) or (ii).

[Re-proposal of Net Stable Funding Ratio’s Applicability]

PART 249—LIQUIDITY RISK MEASUREMENT STANDARDS (REGULATION WW)

[], In §249.1, paragraph (d) is revised to read as follows:

§ 249.1 Purpose and applicability.

* * * * *

(d) Applicability of the minimum stable funding standard. (1) A Board-regulated institution is subject to the minimum stable funding standard and other requirements of subparts K through N if:

(i) It is a global systemically important BHC, a GSIB depository institution, a Category II Board-regulated institution, or a Category III Board-regulated institution with \$75 billion or more in average weighted short-term wholesale funding,

(ii) It is a covered intermediate holding company that:

(A) Has total consolidated assets of \$250 billion or more, as reported on the most recent year-end (as applicable):

(1) Consolidated Financial Statements for Holding Companies reporting form (FR Y-9C), or, if the covered intermediate holding company is not required to report on the FR Y-9C, its estimated total consolidated assets as of the most recent year end, calculated in accordance with the instructions to the FR Y-9C; or

(2) Call Report;

(B) Has total consolidated on-balance sheet foreign exposure at the most recent year-end equal to \$10 billion or more (where total on-balance sheet foreign exposure equals total cross-border claims less claims with a head office or guarantor located in another country plus redistributed guaranteed amounts to the country of the head office or guarantor plus local country claims on local residents plus revaluation gains on foreign exchange and derivative transaction products, calculated in accordance with the Federal Financial Institutions Examination Council (FFIEC) 009 Country Exposure Report);

(iii) It is a depository institution that is:

(A) A Category III Board-regulated institution; and

(B) A consolidated subsidiary of a Category III Board-regulated institution with \$75 billion or more in average weighted short-term wholesale funding;

(iv) It is a depository institution that is a consolidated subsidiary of a covered intermediate holding company described in paragraph (d)(1)(ii) of this section and has total consolidated assets equal to \$10 billion or more, as reported on the most recent year-end Call Report;

(v) It is a covered nonbank company;

(vi) It is a Category III Board-regulated institution or a covered intermediate holding company that meets the criteria in § 249.120(a) but does not meet the criteria in paragraphs (d)(1)(i) or (ii) of this section, and is subject to complying with the requirements of this part in accordance with subpart M of this part; or

(vii) The Board has determined that application of this part is appropriate in light of the Board-regulated institution's asset size, level of complexity, risk profile, scope of operations, affiliation with foreign or domestic covered entities, or risk to the financial system.

(2)(i) A Board-regulated institution that becomes subject to the minimum stable funding standard and other requirements of subparts K through N of this part under paragraphs (d)(1)(i) or (d)(1)(iii) of this section after the effective date, must comply with the requirements of these subparts beginning on the first day of the second calendar quarter after which the Board-regulated institution becomes subject to the minimum stable funding standard and other requirements of this part.

(ii) A Board-regulated institution that becomes subject to the minimum stable funding standard and other requirements of subparts K through N of this part under paragraphs (d)(1)(ii) or (d)(1)(iv) of this section after the effective date must comply with the requirements of subparts K through N of this part beginning on April 1 of the year in which the Board-regulated

institution becomes subject to the minimum stable funding standard and requirements of subparts K through N of this part; and,

(iii) A Board-regulated institution that becomes subject to the minimum stable funding standard and other requirements of subparts K through N of this part under paragraph (d)(1)(vii) of this section after the effective date must comply with the requirements of subparts K through N of this part on the date specified by the Board.

(3) Subparts K through N do not apply to:

(i) A bridge financial company as defined in 12 U.S.C. 5381(a)(3), or a subsidiary of a bridge financial company; or

(ii) A new depository institution or a bridge depository institution, as defined in 12 U.S.C. 1813(i).

(4) A Board-regulated institution subject to a minimum stable funding standard under this part shall remain subject until the Board determines in writing that application of this part to the Board-regulated institution is not appropriate in light of the Board-regulated institution's asset size, level of complexity, risk profile, scope of operations, affiliation with foreign or domestic covered entities, or risk to the financial system.

(5) In making a determination under paragraphs (d)(1)(vii) or (4) of this section, the Board will apply, as appropriate, notice and response procedures in the same manner and to the same extent as the notice and response procedures set forth in 12 CFR 263.202.

* * * * *

Subpart M – Net Stable Funding Ratio for Certain Board-Regulated Institutions

[], §249.120 is revised to read as follows:

§ 249.120 Applicability.

(a) Scope. This subpart applies to:

(1) A Category III Board-regulated institution with less than \$75 billion in average weighted short-term wholesale funding;

(2) A depository institution that is:

(i) A consolidated subsidiary of a Category III Board-regulated institution described in (a)(1) of this section; and

(ii) A Category III Board-regulated institution.

(3) A covered intermediate holding company that has total consolidated assets equal to \$50 billion or more, based on the average of the covered intermediate holding company's total consolidated assets in the four most recent quarters as reported on the FR Y-9C and does not meet the applicability criteria set forth in § 249.1(d).

(b) Applicable provisions. Except as otherwise provided in this subpart, the provisions of subparts A, K, L, and N of this part apply to Board-regulated institutions that are subject to this subpart.

(c) Applicability.

(1) A Board-regulated institution that meets the threshold for applicability of this subpart under paragraphs (a)(1) or (2) of this section after the effective date must comply with the requirements of this subpart beginning on the first day of the second calendar quarter after which it meets the thresholds set forth in paragraph (a) of this section.

(2) A Board-regulated institution that meets the threshold for applicability of this subpart under paragraph (a)(3) of this section after the effective date must comply with the requirements of this subpart beginning one year after the date it meets the threshold set forth in paragraph (a) of this section.

[]]. §249.121 is revised to read as follows:

§ 249.121 Net stable funding ratio requirement.

(a) Calculation of the net stable funding ratio. A Board-regulated institution subject to this subpart must calculate and maintain a net stable funding ratio in accordance with § 249.100 and this subpart.

(b) Available stable funding amount. A Board-regulated institution subject to this subpart must calculate its ASF amount in accordance with subpart K of this part.

(c) Required stable funding amount. A Board-regulated institution subject to this subpart must calculate its RSF amount in accordance with subpart K of this part, provided, however, that the RSF amount of a Board-regulated institution subject to this subpart equals [70 to 85] percent of the RSF amount calculated in accordance with subpart K of this part.⁷⁶

* * * * *

⁷⁶ Under the proposed rule to implement the net stable funding ratio (NSFR), the RSF amount of a Board-regulated institution that is a covered intermediate holding company subject to this part would have equaled 70 percent of the RSF amount calculated in accordance with subpart K of this part. Upon adoption of the final NSFR rule, covered intermediate holding companies would remain subject to this part as proposed in June 1, 2016, until the Board adopts regulations that directly relate to the application of liquidity risk measurement and net stable funding standards to foreign banking organizations.

[THIS SIGNATURE PAGE RELATES TO THE JOINT NOTICE OF PROPOSED
RULEMAKING TITLED “PROPOSED CHANGES TO APPLICABILITY THRESHOLDS
FOR REGULATORY CAPITAL AND LIQUIDITY REQUIREMENTS.”]

By order of the Board of Governors of the Federal Reserve System, _____, 2018.

Ann E. Misback,
Secretary of the Board.

DRAFT