

FEDERAL RESERVE SYSTEM

12 CFR Part 217 Regulation Q

Docket No. R-1535; RIN 7100 AE-49

Regulatory Capital Rules: Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) is adopting a final rule to make several revisions to its rule regarding risk-based capital surcharges for U.S.-based global systemically important bank holding companies (GSIB surcharge rule). The final rule modifies the GSIB surcharge rule to provide that a bank holding company subject to the rule should continue to calculate its method 1 score and method 2 score under the rule annually using data reported on the firm's Banking Organization Systemic Risk Report (FR Y-15) as of December 31 of the previous calendar year. In addition, the final rule clarifies that a bank holding company subject to the GSIB surcharge rule must calculate its method 2 score using systemic indicator amounts expressed in billions of dollars.

DATES: The final rule is effective 30 days from publication.

FOR FURTHER INFORMATION CONTACT:

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I. Introduction

Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) authorizes the Board of Governors of the Federal Reserve System (Board) to establish enhanced prudential standards for bank holding companies with \$50 billion or more in total consolidated assets and for nonbank financial companies that the Financial Stability Oversight Council has designated for supervision by the Board.¹

¹ See, 12 U.S.C. 5365.

These standards must include risk-based capital requirements as well as other enumerated standards. Pursuant to section 165 of the Dodd-Frank Act, the Board adopted a rule regarding risk-based capital surcharges for U.S.-based global systemically important bank holding companies (GSIB surcharge rule) in July 2015 to impose a risk-based-capital surcharge on bank holding companies identified under the rule as global systemically important bank holding companies (GSIBs).² In April 2016, the Board invited public comment on a notice of proposed rulemaking (proposal or proposed rule) to make clarifying revisions to the Board’s GSIB surcharge rule.³ The Board now is issuing a final rule implementing the proposal without change (final rule).

II. Background

The GSIB surcharge rule works to mitigate the potential risk that the material financial distress or failure of a GSIB could pose to U.S. financial stability by increasing the stringency of capital standards for GSIBs, thereby increasing the resiliency of these firms. The GSIB surcharge rule establishes a methodology to identify whether a U.S. top-tier bank holding company is a GSIB and imposes a risk-based capital surcharge on such an institution. The GSIB surcharge rule takes into consideration the nature, scope, size, scale, concentration, interconnectedness, and mix of activities of each company subject to the rule in its methodology for determining whether the company is a GSIB and the size of the surcharge. These factors are captured in the GSIB surcharge rule’s method 1 and method 2 scores, which use quantitative metrics reported on the FR Y-15 reporting form to measure a firm’s systemic footprint.

² 80 FR 49082 (August 14, 2015).

³ 81 FR 20579 (April 8, 2016).

Specifically, the GSIB surcharge rule requires each U.S. bank holding company that qualifies as an advanced approaches institution under the Board's capital rules to calculate an aggregate systemic indicator score based on five indicators of systemic importance (method 1 score).⁴ A bank holding company whose method 1 score exceeds a defined threshold is identified as a GSIB. Advanced approaches institutions must calculate their method 1 scores on an annual basis using data reported on the FR Y-15 reporting form as of December 31 of the prior year.⁵

A bank holding company identified as a GSIB must also calculate a score under method 2. Such a firm must calculate a method 2 score each year using data reported on the firm's FR Y-15 as of December 31 of the prior year. GSIB surcharges are established using the method 1 and method 2 scores, and GSIBs with higher scores are subject to higher GSIB surcharges.

Method 1 uses five equally-weighted categories that are correlated with systemic importance – size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity – as measured by twelve systemic indicators.⁶ For each systemic indicator, a firm divides its own measure of the systemic indicator by an aggregate global indicator amount. Each resulting value is then weighted and put onto a standard scale. The firm's method 1 score is the sum of its weighted systemic indicator scores. Method 2 uses

⁴ See, 12 CFR 217.100(b)(1); 12 CFR part 217, subpart H.

⁵ The GSIB surcharge rule includes transition provisions for the first years that it is effective. See 12 CFR 217.400(b)(2).

⁶ 12 CFR 217.404.

similar inputs to those used in method 1, but replaces the substitutability category with a measure of short-term wholesale funding.⁷ The GSIB surcharge for the firm is the higher of the two surcharges determined under method 1 and method 2.⁸ Method 2 is calibrated differently from method 1 and generally results in a higher GSIB surcharge.

The FR Y-15 reporting form collects systemic risk data from U.S. bank holding companies and covered savings and loan holding companies⁹ with total consolidated assets of \$50 billion or more. The information reported on the FR Y-15 is used in part in the calculation of a bank holding company's method 1 and method 2 scores under the GSIB surcharge rule.¹⁰

In April 2016, the Board invited comment on a proposed rule to clarify certain aspects of the GSIB surcharge rule.¹¹ Because the FR Y-15 had become a quarterly, rather than an annual report, the proposed rule would have clarified that a bank holding company subject to the rule should continue to use the systemic indicator amount from the FR Y-15 regulatory report as of December 31 of the prior calendar year to calculate

⁷ 12 CFR 217.405.

⁸ 12 CFR 217.403.

⁹ Covered savings and loan holding companies are those which are not substantially engaged in insurance or commercial activities. For more information, see the definition of "covered savings and loan holding company" provided in 12 CFR 217.2.

¹⁰ The FR Y-15 requires reporting of the components used in calculating the method 1 and method 2 scores on the FR Y-15, but does not require reporting of the scores themselves. As of January 1, 2016, a bank holding company that is subject to a GSIB surcharge is required to report its applicable GSIB surcharge on line 67 of the Federal Financial Institutions Examination Council 101 report, Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework.

¹¹ 81 FR 20579 (April 8, 2016).

its method 1 and method 2 scores. The proposal also would have clarified the units used for purposes of the method 2 score calculation under the capital surcharge rule. In connection with these proposed changes, the preamble to the proposal provided clarifying information on how a firm identified as a GSIB should calculate its short-term wholesale funding score for purposes of calculating its method 2 score.

III. Description of the Final Rule

A. Revisions Related to FR Y-15 Reporting Frequency

The FR Y-15, as implemented on December 31, 2012, was an annual report.¹² The Board recently revised the FR Y-15 to require that the FR Y-15 to be filed on a quarterly basis, beginning with the report as of June 30, 2016.¹³ Under the GSIB surcharge rule, bank holding companies calculate their method 1 and method 2 scores using data from their most recent FR Y-15.¹⁴ These calculations were intended to be conducted annually using data as of December 31 of the prior calendar year, consistent with the frequency of the FR Y-15 at the time.

The proposed rule sought comment on revising the GSIB surcharge rule to require continued use of a December 31 as-of date for purposes of a bank holding company's calculation of its method 1 and method 2 scores. The proposed revisions to sections 217.404 and 217.405 of the GSIB surcharge rule would provide that the systemic indicator amount used in the calculations would be drawn from a firm's FR Y-15 as of

¹² See 77 FR 76487 (December 28, 2012). The Board subsequently revised the FR Y-15 in December 2013. See 78 FR 77128 (December 20, 2013).

¹³ 80 FR 77344 (December 14, 2015).

¹⁴ 80 FR 49082 (August 14, 2015).

December 31 of the previous calendar year even after the FR Y-15 becomes a quarterly report.

The Board received no comments on this aspect of the proposal and is finalizing this portion of the rule as proposed.

B. Revision to Clarify the Method 2 Score Calculation

The proposed rule also sought to revise section 217.405 of the Board's Regulation Q to clarify that, for purposes of calculating its method 2 score, a GSIB should convert its systemic indicator amounts as reported on the FR Y-15 to billions of dollars. The FR Y-15 requires these data to be reported in thousands of dollars, while the fixed coefficients used in the calculation of a firm's method 2 score are determined using aggregate data expressed in billions of dollars.¹⁵ Therefore, to properly use the fixed coefficients in the method 2 score methodology, a firm should reflect its systemic indicator amounts used in the method 2 score calculation in billions of dollars.

The Board received no comments on this aspect of the proposal and is finalizing this portion of the rule as proposed.

C. Comment Received on the Proposed Rule

The Board received one public comment on the proposed rule. The commenter generally expressed support for the proposed rule, but expressed concerns regarding the interaction of the timing of the FR Y-15 and the Federal Reserve's complex institution liquidity monitoring report, the FR 2052a. The FR Y-15, as noted above, collects data

¹⁵ See, 80 FR 49082, 49088.

regarding a firm's systemic risk, while the FR 2052a collects data on an institution's overall liquidity profile.¹⁶ The commenter expressed concern that if the initial effective date of Schedule G of the FR Y-15 preceded the initial effective date of the FR 2052a this difference would reduce the time that certain firms have to fully implement the FR 2052a. Specifically, the commenter observed that, because data from the FR 2052a will be used to complete Schedule G of the FR Y-15, it was inconsistent to require firms with total assets of \$50 billion or more to file Schedule G of the FR Y-15 as of December 31, 2016, but provide firms with total assets equal to or greater than \$50 billion, but less than \$250 billion until July 31, 2017 to file the FR 2052a. The commenter therefore argued that firms should be given additional time to complete Schedule G of the FR Y-15 in order to allow them to make use of the full implementation period for the FR 2052a.

In response to the comment, the Board is issuing an interim final rule concurrently with this final rule to provide additional time for certain smaller firms to complete Schedule G of the FR Y-15 for the first time.

V. Regulatory Analysis

A. Paperwork Reduction Act (PRA)

There is no new collection of information pursuant to the PRA (44 U.S.C. 3501 *et seq.*) contained in this final rule.

B. Regulatory Flexibility Act Analysis

¹⁶ See 77 FR 76487 (December 28, 2012). The Board subsequently revised the FR Y-15 in December 2013. See 78 FR 77128 (December 20, 2013). See 80 FR 71795 (November, 17, 2015).

The Board is providing a final regulatory flexibility analysis with respect to this final rule. The Regulatory Flexibility Act, 5 U.S.C. 601 et seq. (RFA), generally requires that an agency provide a regulatory flexibility analysis in connection with a final rulemaking. This final rule amends the Board's GSIB surcharge rule, which only applies to bank holding companies that are advanced approaches Board-regulated institutions for purposes of the Board's Regulation Q (advanced approaches bank holding companies). Generally, advanced approaches bank holding companies are those that: have total consolidated assets of \$250 billion or more; have total consolidated on-balance sheet foreign exposures of \$10 billion or more; have subsidiary depository institutions that are advanced approaches institutions; or elect to use the advanced approaches framework.¹⁷ Under regulations issued by the Small Business Administration, a small entity includes a depository institution, bank holding company, or savings and loan holding company with assets of \$550 million or less (small banking organizations).¹⁸ As of June 30, 2016, there were approximately 3,203 top-tier small bank holding companies. Bank holding companies that are subject to the final rule therefore are expected to substantially exceed the \$550 million asset threshold at which a banking entity would qualify as a small bank holding company. As a result, the final rule is not expected to apply to any small bank holding company for purposes of the RFA.

¹⁷ See 12 CFR 217.100.

¹⁸ See 13 CFR 121.201. Effective July 14, 2014, the Small Business Administration revised the size standards for banking organizations to \$550 million in assets from \$500 million in assets. 79 FR 33647 (June 12, 2014). The Small Business Administration's June 12, 2014, interim final rule was adopted without change as a final rule by the Small Business Administration on January 12, 2016. 81 FR 3949 (January 25, 2016).

Therefore, there are no significant alternatives to the final rule that would have less economic impact on small bank holding companies. As discussed above, there are no projected reporting, recordkeeping, and other compliance requirements of the final rule. The Board does not believe that the final rule duplicates, overlaps, or conflicts with any other Federal rules. In light of the foregoing, the Board does not believe that the final rule would have a significant economic impact on a substantial number of small entities.

The Board sought comment on whether the proposed rule would impose undue burdens on, or have unintended consequences for, small organizations, and received no comments on this aspect of the proposal. In light of the foregoing, the Board does not believe that the final rule will have a significant impact on small entities.

C. Riegle Community Development and Regulatory Improvement Act of 1994

In determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on state member banks, the Board is required to consider, consistent with the principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, and the benefits of such regulations.¹⁹ In addition, new regulations that impose additional reporting disclosures or other new requirements on insured depository institutions generally must take effect on the first day

¹⁹ See Section 302 of the Riegle Community Development and Regulatory Improvement Act of 1994 (“RCDRIA”), 12 U.S.C. 4802.

of a calendar quarter which begins on or after the date on which the regulations are published in final form.²⁰

The final rule is only applicable to advanced approaches bank holding companies. Therefore, the requirements of the Riegle Community Development and Regulatory Improvement Act of 1994 are not applicable to this final rule.

D. Plain Language

Section 722 of the Gramm-Leach-Bliley Act requires the Board to use plain language in all proposed and final rules published after January 1, 2000. The Board has sought to present the final rule in a simple straightforward manner. The Board did not receive any comment on its use of plain language.

List of Subjects

12 CFR part 217

Administrative practice and procedure, Banks, banking, Holding companies, Reporting and recordkeeping requirements, Securities

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

12 CFR CHAPTER II

Authority and Issuance

For the reasons set forth in the preamble, the Board proposes to amend chapter II of title 12 of the Code of Federal Regulations as follows:

²⁰ 12 U.S.C. 4802(b).

**PART 217 – CAPITAL ADEQUACY OF BANK HOLDING COMPANIES, SAVINGS
AND LOAN HOLDING COMPANIES, AND STATE MEMBER BANKS**

(REGULATION Q)

1. 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–l, 1831w, 1835, 1844(b), 1851, 3904, 3906–3909, 4808, 5365, 5368, 5371.

2. In § 217.404, paragraph (b)(1) is revised to read as follows:

§ 217.404 Method 1 score

* * * * *

(b) Systemic indicator score. (1) Except as provided in paragraph (b)(2) of this section, the systemic indicator score in basis points for a given systemic indicator is equal to:

(i) The ratio of:

(A) The amount of that systemic indicator, as reported by the bank holding company as of December 31 of the previous calendar year; to

(B) The aggregate global indicator amount for that systemic indicator published by the Board in the fourth quarter of that year;

(ii) Multiplied by 10,000; and

(iii) Multiplied by the indicator weight corresponding to the systemic indicator as set forth in Table 1 of this section.

* * * * *

3. In § 217.405, paragraph (b)(1) is revised to read as follows:

§ 217.405 Method 2 score.

* * * * *

(b) Systemic indicator score. A global systemically important BHC's score for a systemic indicator is equal to:

(1) The amount of the systemic indicator, as reported by the bank holding company as of December 31 of the previous calendar year, expressed in billions of dollars;

* * * * *

By order of the Board of Governors of the Federal Reserve System, December 9, 2016.

Robert deV. Frierson,
Secretary of the Board