BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: October 3, 2019

To: Board of Governors

From: Vice Chair for Supervision Quarles

Subject: Draft final rules to tailor prudential standards to large banking organizations; draft proposed rule to amend assessment fees to align with the tailoring framework

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Attached is a memorandum to the Board regarding two draft final rules (attached) that would further tailor the prudential standards applicable to large U.S. and foreign banking organizations based on their risk profiles and a draft proposed rule (attached) that would modify the assessments imposed on large holding companies, all consistent with amendments made by section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA).

The first draft final rule would be issued solely by the Board and would revise the framework for application of prudential standards to U.S. and foreign banking organizations and would apply enhanced standards to certain large savings and loan holding companies. The second draft final rule, which would be issued jointly with the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC), would modify the application of the agencies' capital and liquidity rules. The draft final rules include related reporting changes and other modifications to the Board's stress test rules. The draft proposed rule would adjust the amount charged to certain assessed companies for supervision and regulation to align with the revised tailoring framework.

Also attached is a memorandum to the Board regarding a draft final rule (attached) that would be issued jointly with the FDIC and revise the regulation implementing the resolution planning requirements of section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The resolution planning draft final rule would build on the Board's tailoring of its rules and experience implementing those rules, and account for changes to application of the resolution planning requirements made by EGRRCPA.

The Committee on Supervision and Regulation has reviewed the draft final rules and notice of proposed rulemaking, and I believe they are ready for the Board's consideration.

Date:	October 3, 2019
To:	Board of Governors
From:	Staff[1]
Subject:	Draft final rules to tailor prudential standards to large banking organizations; draft proposed rule to amend assessment fees to align with the tailoring framework

ACTIONS REQUESTED: Approval of two draft final rules that would establish a revised framework for applying prudential standards to large U.S. banking organizations and foreign banking organizations based on their risk profiles: (1) a Board-only rule that tailors the application of prudential standards to large banking organizations, and applies prudential standards to certain savings and loan holding companies; and (2) a rule that would be issued jointly with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation that tailors the application of the agencies' capital and liquidity rules to large banking organizations. The draft final rules include related reporting changes and other modifications to the Board's stress test rules. In addition, staff requests the Board delegate authority to staff to make certain determinations under the draft final rules that raise no significant legal, policy or supervisory concerns.

Staff also requests (1) approval of a draft proposed rule to adjust the amount charged to certain assessed companies for supervision and regulation to align with the revised tailoring framework; (2) that the Board certify the draft final rules will not have a significant economic impact on a substantial number of small entities, and (3) authority for staff to make technical or minor changes to the attached materials.

[1] Michael Gibson, Mary Aiken, Anna Lee Hewko, Rick Naylor, Constance Horsley, Christine Graham, Elizabeth MacDonald, Missaka Warusawitharana, Mark Handzlik, J. Kevin Littler, Peter Stoffelen, Matthew McQueeney, Christopher Powell, Hillel Kipnis, Althea Pieters, Rebecca Zak, and Akos Horvath (Division of Supervision and Regulation); and Mark Van Der Weide, Laurie Schaffer, Ben McDonough, Asad Kudiya, Jason Shafer, Mary Watkins, Laura Bain, and Alyssa O'Connor (Legal Division).

EXECUTIVE SUMMARY:

- Post-financial crisis reforms have substantially improved the resiliency of large banking organizations and the financial system. Notable advances include better quality capital and an approximate doubling in the overall amount of capital; a rigorous and dynamic stress test framework; reductions in the levels of firms' volatile short-term wholesale funding; more than doubling of liquid asset buffers; and improvements in resolvability.

- In October 2018 and April 2019, the Board invited comment on proposals that were the product of the Board's ongoing efforts to tailor the regulatory framework, in a manner consistent with the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). The proposals would have more closely aligned the regulatory requirements that apply to large banking organizations with their risk profiles, while preserving the resilience of the financial system.

- The draft final rules would largely follow the structure of the proposed rules, with certain targeted changes in response to comments:

  - The draft final rules would apply standardized liquidity requirements to a U.S. intermediate holding company (IHC) calibrated based on the risk profile of the IHC, rather than the combined U.S. operations of the foreign banking organization. Staff believes this change would simplify and enhance the focus of the framework. The draft final rules indicate that the Board is still considering whether to develop a standardized liquidity requirement for the U.S. branches and agencies of foreign banking organizations.

  - The proposals asked for comment on a range of reduced standardized liquidity requirements for domestic and foreign firms subject to Category III and IV standards; the proposed range was from 70 to 85 percent. The draft final rules would include an 85 percent calibration for firms subject to Category III standards and a 70 percent calibration for firms subject to Category IV standards, reflecting the difference in risk profiles of these firms.

- The draft final rules would establish four risk-based categories for determining the applicability and stringency of prudential standards. Firms would be sorted into categories based on several factors, including asset size, cross-jurisdictional activity, reliance on short-term wholesale funding, nonbank assets, and off-balance sheet exposure. Each factor reflects greater complexity and risk to safety and soundness and to U.S. financial stability. The visual guides in Appendix B detail the different categories and estimates of firms in each category.

  - Category I: U.S. global systemically important bank holding companies would remain subject to the most stringent standards.

  - Category II: Firms of global scale—those with very significant size ($700 billion or more in assets) or cross-jurisdictional activity ($75 billion or more)—would be

subject to stringent prudential standards, including requirements based on standards developed by the Basel Committee on Banking Supervision.

  - Category III: Firms with $250 billion or more in assets, or firms with $100 billion to $250 billion in assets that meet one or more risk-based thresholds, would be subject to prudential standards that are appropriate for firms with elevated risk profiles, relative to firms subject to Category IV standards.

  - Category IV: Firms with $100 billion to $250 billion in assets that do not meet a risk-based threshold would be subject to reduced capital, liquidity, and risk-management requirements relative to firms subject to Category III standards, reflecting their more limited risk profiles.

- The draft Board-only final rule would tailor standards relating to capital stress testing; risk management; liquidity risk management, liquidity stress testing, and liquidity buffer requirements; and single-counterparty credit limits. The draft Board-only final rule also would apply prudential standards to certain savings and loan holding companies to further their safety and soundness and increase consistency of the regulatory framework across similarly situated banking organizations.

- The interagency draft final rule tailors requirements under the agencies' capital rule and liquidity coverage ratio (LCR) rule.[2]

- The draft final rules would significantly reduce regulatory requirements for firms subject to Category IV standards, modestly reduce requirements for firms subject to Category III standards, and largely keep existing requirements in place for the largest and most complex firms subject to Category I or II standards.

- The draft final rules would not modify regulatory capital requirements for firms subject to Category I or II standards. For domestic holding companies and IHCs subject to Category III or IV standards, the draft final rules would decrease capital requirements by approximately 0.6 percent of total risk-weighted assets. The impact on capital levels for these firms could vary under different economic and market conditions. The draft final rules also would reduce compliance costs related to stress testing, and, for certain firms, the advanced approaches capital requirements.

- The draft final rules would not modify liquidity requirements for firms subject to Category I or II standards, and would modify liquidity requirements for firms subject to Category III or IV standards. Staff estimates that the draft final rules would reduce by about 2 percent the

[2] The agencies also requested comment on the application of the net stable funding ratio (NSFR) rule under the proposed framework. The draft final rules would not finalize any aspect of the NSFR, and staff expects these comments would be addressed in the context of any draft final rule to adopt the proposed NSFR.

liquidity requirements for all domestic holding companies and IHCs with greater than $100 billion in assets. The final rules would continue to require domestic and foreign firms to conduct internal liquidity stress tests and hold an amount of highly liquid assets sufficient to meet projected 30-day net stressed cash-flow needs under internal stress scenarios.

- In January 2019, the Board separately proposed changes to its stress testing rules as required by EGRRCPA. The draft Board-only final rule would adopt these modifications as proposed. Among other changes, the "adverse" scenario would no longer be required as part of the Board's stress test framework. The more stringent "severely adverse" scenario would remain.
- Lastly, a separate proposal would invite public comment on modifications to the assessments imposed on large bank holding companies and savings and loan holding companies for the estimated cost of their supervision and regulation, as required by EGRRCPA. The proposed revisions to the assessment rule would reduce the share of costs charged to holding companies subject to Category IV standards and other assessed companies not subject to enhanced prudential standards by 10 percent, to reflect the Board's estimate of reduced costs associated with EGRRCPA-related modifications to the supervisory and regulatory programs for these firms.

DISCUSSION:

A. Tailoring Draft Final Rules

1. Background on the Proposals

Following the financial crisis, the Board adopted a series of standards to enhance the resiliency of large banking organizations, including foreign banking organizations, and to implement section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).[3] These standards, which generally increase in stringency with the size and systemic footprint of a firm, strengthened the capital and liquidity positions of large banking organizations, and substantially mitigated the risks to safety and soundness and U.S. financial stability.

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[3] 12 U.S.C. 5365.

As part of the Board's practice of regularly reviewing its rules, the Board has since assessed whether further tailoring of these standards is appropriate. Further, in May 2018, Congress enacted EGRRCPA, which amended section 165 of the Dodd-Frank Act to raise the $50 billion minimum total consolidated asset threshold to $250 billion for general application of enhanced prudential standards to bank holding companies.[4] EGRRCPA also provides the Board with discretion to apply standards to bank holding companies with total consolidated assets of between $100 billion and $250 billion.

To further tailor and enhance the risk sensitivity of the Board's regulatory framework, and to implement statutory changes made by EGRRCPA, the Board sought comment on a series of proposals to tailor the prudential standards for large banking organizations. In October 2018, the Board sought comment on proposals that would apply a revised framework of prudential standards for U.S. banking organizations with $100 billion or more in total consolidated assets. Subsequently, in April 2019, the Board sought comment on proposals that would apply the same revised framework to foreign banking organizations with $100 billion or more in U.S. assets, with certain adjustments to reflect the unique structures through which foreign banking organizations operate in the United States.

Many commenters supported the proposals as meaningfully tailoring prudential standards. Most commenters also expressed the view that the proposed framework was still too stringent. Other commenters disagreed with the calibration changes in the proposals and said the

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[4] Pub. L. No. 115-174, 132 Stat. 1296 (2018). The term bank holding company as used in section 165 of the Dodd-Frank Act includes a foreign bank or company treated as a bank holding company for purposes of the BHC Act, pursuant to section 8(a) of the International Banking Act of 1978. *See* 12 U.S.C. 3106(a); 12 U.S.C. 5311(a)(1).

modifications went beyond the changes required by EGRRCPA. In response to the foreign bank proposals, commenters generally argued that the proposals would unfairly increase certain requirements applicable to foreign banking organizations, would negatively affect global financial markets, and was inconsistent with the principle of national treatment and equality of competitive opportunity.

Staff recommends that the Board adopt the draft final rules largely as proposed, with certain changes described further below. The draft final rules more closely align the prudential standards applicable to large banking organizations with their risk profiles, while maintaining the fundamental reforms of the post-crisis framework. The draft final rules are also consistent with considerations and factors set forth under the Dodd-Frank Act, as amended by EGRRCPA, including the principle of national treatment and equality of competitive opportunity. The draft final rules would be effective 60 days after publication in the *Federal Register*.

2. Revised Framework for Application of Prudential Standards

The draft final rules would establish categories of prudential standards applicable to bank holding companies, savings and loan holding companies that are not substantially engaged in insurance underwriting or commercial activities (covered savings and loan holding companies), and foreign banking organizations to better align those requirements with a firm's risk profile and to continue to apply consistent standards across similarly-situated firms.[5] In particular, the

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[5] Other than risk-committee and related risk-management requirements, the draft final rules would eliminate enhanced regulatory requirements for banking organizations with less than $100 billion in total assets. For foreign banking organizations with a limited U.S. presence, the draft final rules would raise the global asset thresholds consistent with the changes made by EGRRCPA and continue to rely on compliance with comparable home-country standards.

draft final rules would use risk-based indicators to differentiate firms based on their size, cross-jurisdictional activity, reliance on short-term wholesale funding, nonbank assets, and off-balance sheet exposure, and whether a firm is identified as a U.S. global systemically important bank holding company (U.S. GSIB) under the Board's rules.[6] Under this approach, four categories of standards would apply:

- Category I: U.S. GSIBs would remain subject to the most stringent standards. Category I standards apply solely to U.S. banking organizations.

- Category II: Banking organizations with $700 billion or more in assets, or firms with $75 billion or more in cross-jurisdictional activity and $100 billion or more in assets, that do not qualify as U.S. GSIBs would be subject to more stringent prudential standards. Those standards are based on global standards developed by the Basel Committee on Banking Supervision (BCBS) and include other prudential standards appropriate to very large or internationally active banking organizations.

- Category III: Banking organizations with $250 billion or more in assets, or firms with $100 billion or more in assets and at least $75 billion in (1) nonbank assets, (2) weighted short-term wholesale funding, or (3) off-balance sheet exposure, that are not subject to Category I or II standards. These firms would be subject to enhanced standards that are reduced relative to Categories I and II.

- Category IV: Banking organizations with $100 billion or more in assets that are not subject to Category I, II, or III standards would be subject to further reduced requirements relative to Categories I, II, and III.

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[6] For foreign banking organizations, the draft final rules would measure risk-based indicators of the combined U.S. operations or U.S. IHC, as applicable. For U.S. banking organizations, the draft final rules would measure risk-based indicators of the total consolidated organization.

Overall, commenters supported the proposed approach and, in particular, the use of risk-based indicators to determine applicable prudential standards. Some commenters, however, expressed concerns with aspects of the proposed approach (see Appendix A for a summary of comments).

Risk-Based Indicators: A number of commenters asserted that the Board should make modifications, such as excluding certain types of transactions or assets, to make the risk-based indicators more risk-sensitive. Each of the risk-based indicators is designed to identify, in a simple and transparent way, firms that pose heightened risk. For example, size provides a measure of the extent to which stress at a banking organization's operations could be disruptive to the U.S. market and present significant risks to U.S. financial stability, as well as safety and soundness risks. In addition, some of the modifications suggested by commenters to various indicators would not align with the full scope of risks intended to be measured by the indicators. Accordingly, staff recommends that the final rule adopt the risk-based indicators as proposed. (See pp 22-50 of the draft Board-only final rule and pp 21-49 of the draft interagency final rule.)

Indexing of Thresholds: Several commenters requested that the Board index or annually adjust the proposed dollar-based thresholds; for example, by indexing to growth in domestic banking assets or other measures of economic growth. As commenters noted, however, the $100 billion and $250 billion total consolidated assets thresholds are prescribed in the Dodd-Frank Act and are not indexed by statute.[7] Indexing certain thresholds, but not the statutorily prescribed thresholds, would add complexity and potential discontinuity to the framework. For

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[7] 12 U.S.C. 5365(a).

these reasons, staff recommends finalizing the thresholds without indexing, as proposed. (See pp 54 of the draft Board-only final rule and pp 52-53 of the draft interagency final rule.)

Requirements Applied to IHCs: The foreign bank proposals would have determined the applicability of standardized liquidity requirements and single-counterparty credit limits to a foreign banking organization's IHC based on the risk profile of the foreign banking organization's combined U.S. operations, which would include its U.S. branches and agencies. Some commenters asserted that prudential standards applied to an IHC should be based on the IHC's own risk profile given that the IHC is a separate legal entity from the foreign banking organization's U.S. branches and agencies. Some commenters also asserted that using combined U.S. operations would create an uneven playing field between an IHC and a similarly situated U.S. bank holding company. In a change from the proposal, staff recommends that the final rule apply the LCR requirement and single-counterparty credit limits based on the risk profile of the IHC, rather than the risk profile of the foreign banking organization's combined U.S. operations.[8] This change would simplify and enhance the focus of the tailoring framework. (See pp 79-82 of the draft Board-only final rule and pp 59-61 of the draft interagency final rule.)

Inter-affiliate transactions for foreign banking organizations: Generally, the foreign bank proposals would have included transactions by the U.S. operations of a foreign bank with affiliates outside of the United States. To reflect the structural differences between foreign banking organizations' U.S. operations and domestic holding companies, however, the foreign

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[8] The draft final rules also would indicate that the Board is still considering whether to develop a standardized liquidity requirement with respect to the U.S. branches and agencies of foreign banking organizations.

bank proposals would have excluded liabilities to and certain collateralized claims on non-U.S. affiliates from the measure of cross-jurisdictional activity. Some commenters argued that the Board should exclude all inter-affiliate transactions from the risk-based indicators, particularly cross-jurisdictional activity and weighted short-term wholesale funding. Staff believes that the approach taken in the foreign bank proposals appropriately balanced the risks posed by transactions with non-U.S. affiliates and the structural differences between U.S. bank holding companies and the U.S. operations of foreign banking organizations. The exclusion of all inter-affiliate transactions would not align with the full scope of risks intended to be measured by the proposed risk-based indicators. Therefore, staff recommends retaining the calculation of the risk-based indicators as proposed. (See pp 59-63 of the draft Board-only final rule and pp 61-65 of the draft interagency final rule.)

3. Requirements That Apply Under Each Category of Standards

Category I Standards: Category I standards, applicable to U.S. GSIBs, would continue to include the most stringent requirements in light of the financial stability risks posed by these firms. The draft final rules would not include any capital or liquidity requirement changes applicable to U.S. GSIBs and would make only limited changes to other requirements, consistent with EGRRCPA.[9] (See pp 67-69 of the draft Board-only final rule and pp 69-71, 83 of the draft interagency final rule.)

[9] For all banking organizations, including the U.S. GSIBs, the proposals would have eliminated the mid-cycle company-run stress testing requirement. Staff recommends that the Board finalize this aspect of the proposals, as it is consistent with EGRRCPA and removes an aspect of the rules that posed burden without commensurate benefit. The final rule would provide the Board with the ability to adjust the required frequency of stress testing based on the risk profile of the firm or other factors.

Category II Standards: Category II standards, applicable to firms of very large size or global scale, would include requirements based on global standards developed by the BCBS and other prudential standards appropriate for very large or internationally active banking organizations.

- Capital: Capital standards would continue to include internal models risk-based capital requirements (otherwise known as "advanced approaches" capital requirements),[10] the countercyclical capital buffer, the supplementary leverage ratio, and the requirement to recognize elements of accumulated other comprehensive income (AOCI) in regulatory capital. (See pp 71-74 of the draft interagency final rule.)
- Liquidity: LCR and liquidity risk management, stress testing, and buffer requirements would remain unchanged for firms subject to Category II standards.[11] (See pp 69-71 of the draft Board-only final rule and pp 84-86 of the draft interagency final rule.)
- Stress Testing: The standards in the draft final rules, including annual supervisory stress testing, are generally consistent with the standards that currently apply to firms subject to these standards.[12] (See pp 69-71 of the draft Board-only final rule.)

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[10] Consistent with existing requirements,. IHCs and their depository institution subsidiaries would not be required to calculate risk-based capital requirements using the advanced approaches.

[11] LCR requirements for firms subject to Category II or Category III standards also would apply to their depository institution subsidiaries with assets of $10 billion or more.

[12] Category II standards would not include mid-cycle stress test requirements. *See* supra note 9.

Category III Standards: Category III standards, applicable to firms with assets of $250 billion or more, or that meet another risk threshold, would be less stringent than the requirements included in Category I or II to reflect the relatively lower risk profiles of subject firms.

- Capital: These firms would not be subject to internal models-based risk-based capital requirements and the requirement to recognize elements of AOCI in regulatory capital.[13] These firms would remain subject to the countercyclical capital buffer and supplementary leverage ratio. (See pp 75-79 of the draft interagency final rule.)
- Liquidity: Firms with a relatively lower reliance on short-term wholesale funding would be subject to a reduced LCR, calibrated at 85 percent of the full LCR requirement. The proposals included a range of calibrations for the reduced LCR of between 70 and 85 percent of the full LCR requirement. Some commenters requested that the Board use a 70 percent calibration, while other commenters requested that the Board use an 85 percent calibration. To reflect the risk profile of firms subject to Category III standards, the reduced LCR for these firms in the draft final rules would be calibrated at 85 percent of the full LCR requirement. In addition, as proposed, firms subject to Category III standards with weighted short-term wholesale funding of $75 billion or more would be subject to a 100 percent LCR requirement. (See pp 86-91 of the draft interagency final rule.)

[13] These requirements currently apply to firms with at least $250 billion in assets or $10 billion in on-balance sheet foreign exposure. Accordingly, only firms that currently meet either of these thresholds would have reduced capital requirements under the draft final rules.

- Stress Testing: These firms would remain subject to annual supervisory stress testing, and would be required to conduct and publicly report the results of a company-run stress test every two years instead of semi-annually. (See pp 72-75 of the draft Board-only final rule.)

Category IV Standards: Category IV standards, applicable to firms with total assets of $100 billion or more but that do not meet a threshold for any other risk-based indicator, would include reductions from current requirements to reflect the relatively lower risk of these firms.

- Capital: These firms would not be subject to internal models-based risk-based capital requirements, the requirement to recognize elements of AOCI in regulatory capital, the countercyclical capital buffer, or the supplementary leverage ratio. (See pp 79-80 of the draft interagency final rule.)
- Liquidity: Generally, firms subject to Category IV standards would not be subject to an LCR requirement. Consistent with the proposals, if a holding company subject to Category IV standards has $50 billion or more in weighted short-term wholesale funding, however, it would be subject to a reduced LCR requirement, calibrated at 70 percent of the full LCR requirement. Category IV standards also include quarterly (rather than monthly) internal liquidity stress testing and simplified liquidity risk-management requirements. These firms would remain subject to internal liquidity stress tests, which would determine the amount of high-quality liquid assets they are required to hold, consistent with their own liquidity needs. (See pp 73-75 of the draft Board-only final rule and pp 91-93 of the draft interagency final rule.)

- Stress Testing: These firms would be subject to supervisory stress testing every two years, rather than annually, and would no longer be required to conduct and publicly report the results of a company-run stress test. (See pp 75-78 of the draft Board-only final rule.)

Appendix B summarizes the prudential standards that apply under each category of standards along with estimates of the firms that are subject to each category of standards.

4. Stress Testing Changes

In January 2019, the Board proposed to amend its company-run and supervisory stress test requirements, consistent with changes made by EGRRCPA. The proposal would have removed the adverse scenario from the list of required macroeconomic scenarios. In addition, the proposal would have revised the minimum threshold for state member banks to conduct company-run stress tests from $10 billion to $250 billion in assets and would have revised the frequency by which state member banks would be required to conduct company-run stress tests.

One commenter expressed concern regarding the reduction in the frequency of the stress tests, while another commenter urged the Board to adopt the removal of the adverse scenario for the 2019 stress test cycle. Staff believes the modifications would reduce regulatory burden but still provide the Board and the state member banks with sufficient information to satisfy the purposes of stress testing, and the draft final rules would therefore adopt the proposal without change. (See pp 107-114 of the draft Board-only final rule.)

5. Regulatory Reporting

The draft final rule would amend various reporting forms consistent with the tailoring framework.[14] Some commenters supported the Board's proposed reporting changes, whereas others expressed concern that certain changes would be unnecessary and burdensome. Commenters also requested extended time to comply with any new reporting requirements. Staff recommends finalizing reporting requirements generally as proposed, with some changes to reflect commenters' concerns. Staff also recommends providing foreign banks with extended time to file the amended FR Y-15 (Systemic Risk Report), and covered savings and loan holding companies with extended time to file their first FR Y-14 (Capital Assessments and Stress Testing) reports. (See pp 115-133 of the draft Board-only final rule.)

6. Delegations of Authority

Staff recommends the Board delegate the authority to designated staff to make certain determinations that would facilitate administration of the draft final rules. Specifically, the draft order in Appendix C would delegate to the Director of the Division of Supervision and Regulation, or his or her delegatee, in consultation with the General Counsel, or his or her delegatee, the authority to determine that: (1) an asset meets the criteria to be a highly liquid asset under the Board's liquidity stress testing and liquidity buffer requirements; and (2) a foreign banking organization may comply with the requirements in the Board's enhanced prudential standards rule through a subsidiary. These delegations only cover actions that raise no significant legal, policy or supervisory concerns.

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[14] The Board proposed amending, and staff recommends finalizing, changes to the FR Y-14, FR Y-15, FR 2052a, FR Y-9C, FR Y-9LP, FR Y-7, and FR Y-7Q.

7. Impact Analysis

Staff estimates that the draft final rules will lower capital requirements by about 0.6 percent of total risk-weighted assets for affected firms, or about $8 billion and $3.5 billion for domestic holding companies and IHCs, respectively. As noted, the draft final rules would not modify regulatory capital requirements for firms subject to Category I or II standards. The impact on capital levels could vary under different economic and market conditions. Staff expects reduced compliance costs for banking organizations no longer subject to the advanced approaches capital requirements.

Staff estimates that total liquidity requirements would decrease by about 2 percent for all domestic and foreign bank holding companies with assets greater than $100 billion, or by $48 billion and $5 billion for domestic holding companies and IHCs, respectively. The decrease in the liquidity requirements of firms subject to Category III standards accounts for the majority of the total liquidity requirement reduction, for both domestic and foreign banking organizations. As noted, the draft final rules would not modify liquidity requirements for firms subject to Category I or II standards.

Since liquidity buffers come at a cost to firms and firms may pass along their costs to their customers, modestly smaller liquidity buffers would reduce these costs. At the same time, smaller liquidity buffers could modestly increase the likelihood that a firm could experience liquidity pressure during times of stress. (See pp 106-109 of the draft interagency final rule.)

B. Assessments Proposed Rule

The Dodd-Frank Act directs the Board to collect assessments equal to the Board's estimated expenses in supervising and regulating assessed companies. EGRRCPA raised the minimum threshold for assessed bank holding companies and savings and loan holding

companies from $50 billion to $100 billion in total consolidated assets and directed the Board to adjust the amount charged to assessed companies with total consolidated assets between $100 billion and $250 billion to reflect any changes in supervisory and regulatory responsibilities resulting from EGRRCPA.[15]

Consistent with EGRRCPA, the proposal would modify the Board's rules[16] to raise the minimum threshold for assessed bank holding companies and savings and loan holding companies from $50 billion to $100 billion or more in total consolidated assets. The proposal also would incorporate the risk-based categories from the draft final rules for purposes of determining the amount charged to assessed companies with between $100 billion and $250 billion in total consolidated assets. In particular, the proposal would reduce the share of costs charged to firms subject to Category IV standards and certain other assessed companies[17] by 10 percent, to reflect the Board's estimate of reduced costs associated with EGRRCPA-related modifications to the supervisory and regulatory programs for these firms.

Under the proposal, and consistent with EGRRCPA and the requirements in the draft final rules, firms with between $100 billion and $250 billion in total consolidated assets that are subject to Category I, II, or III standards would not be eligible for a reduced assessment rate. The proposed reduction is based on an estimate of the 2018 supervisory and regulatory costs associated with key enhanced prudential standards for large banking firms, supervisory stress

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[15] Pub. L. 115-174, 132 Stat. 1296 (2018).

[16] 12 CFR part 246.

[17] This includes other firms that are subject to Regulation TT; for example, insurance savings and loan holding companies and foreign banking organizations with a small U.S. presence.

testing, and resolution planning programs. The proposal would provide two different assessment rates for assessed companies based on the tailoring categories. The EGRRCPA-related supervisory and regulatory changes that are the basis for the estimated reduction in program costs for firms subject to Category IV standards and other assessed companies are expected to occur in 2020. Accordingly, staff proposes that the revised assessment rates should be used beginning with the 2020 assessment period. To the extent that the actual modifications of the relevant supervisory and regulatory programs differ from the basis for the underlying estimate of costs, the proposed rule may be revised to reflect these changes.

C. Regulatory Flexibility Act (RFA) Certification

The RFA[18] requires an agency to prepare a final regulatory flexibility analysis unless the agency certifies that a rule will not, if promulgated, have a significant economic impact on a substantial number of small entities.[19] Because the draft tailoring final rules will not apply to any banking organizations of this size, staff recommends that the Board certify that the draft tailoring final rules will not, have a significant economic impact on a substantial number of small entities.

RECOMMENDATIONS:

For the reasons discussed above, staff recommends that the Board approve the attached draft final rules, the draft order of delegations, and the draft notice of proposed rulemaking for tailoring assessments. Staff also recommends that the Board certify the draft final rules do not

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[18] 5 U.S.C. 601 et seq.

[19] The Small Business Administration has defined "small entities" to include banking organizations with total assets of less than or equal to $600 million.

have a significant economic impact on a substantial number of small entities. Finally, staff recommends that the Board authorize staff to make technical, non-substantive changes to the attached materials prior to publication.

APPENDIX A

Overview of Comments on the Tailoring Proposals

The Board received approximately 50 comment letters on the proposals, including from banking organizations, industry trade groups, public interest groups, academic institutions, a U.S. state regulator, a foreign central bank, and individuals.

General comments:

Many commenters largely supported the proposals as meaningfully tailoring prudential standards. Other commenters, by contrast, argued that the proposals would weaken the safety and soundness of large banking organizations and increase risks to U.S. financial stability, and asserted that the proposals would go beyond the changes required by EGRRCPA.

Approach to tailoring prudential standards: Commenters generally supported using risk-based indicators over the alternative GSIB score-based approach on which the proposals also requested comment, arguing that the score-based approach was less transparent, more complex, and less appropriate for categorizing non-GSIBs. If a GSIB score-based approach were to be adopted, industry commenters supported the use of Method 1 over Method 2 scores. Some industry commenters argued that the application of enhanced standards based on a single indicator (such as size), rather than a combination of indicators, would be inconsistent with EGRRCPA.

Categories and calibration: Commenters requested that the agencies provide additional support for the dollar-based thresholds (e.g., $75 billion, $700 billion). Some commenters also requested that the indicators be indexed annually to domestic banking assets, inflation, gross domestic product, or other economic indicators.

Some commenters argued that Category II standards would be too stringent relative to the risks indicated by a high level of cross-jurisdictional activity or very large size, and suggested that cross-jurisdictional activity should be an indicator for Category III standards instead of Category II, or that Category II standards should only apply if a banking organization met additional risk-based indicators. Others argued that Category II standards would be too relaxed and all firms with $700 billion or more in assets should be subject to Category I standards. Some commenters argued that smaller regional banking organizations and covered savings and loan holding companies should not be subject to any enhanced standards.

Risk-based indicators: Some commenters requested a number of changes that they argued would enhance the risk-sensitivity of the risk-based indicators. For example, for size, nonbank assets, and off-balance sheet exposure, some commenters requested risk-weightings be applied similar to those applied under the capital rule.

Some commenters argued that the framework relied too much on size, while other commenters supported the use of size and argued for more emphasis on it.

Commenters argued for various changes to the cross-jurisdictional indicator, such as excluding all cross-jurisdictional liabilities or raising the $75 billion threshold. Commenters also supported changes to components of the cross-jurisdictional activity indicator that generally would have the effect of reducing the amount of reported cross-jurisdictional activity.

Commenters argued that the short-term wholesale funding indicator is a poor measure of risk because the indicator fails to take into account the extent to which the risk of short-term wholesale funding has been mitigated through existing regulatory requirements and the maturity of assets funded by short-term wholesale funding.

Commenters argued that nonbank assets was not sufficiently risk sensitive because is based on the total size of nonbank entities rather than measuring the risks associated with activities or assets.

Liquidity: Commenters generally supported the proposed reductions in LCR requirements, but argued that the reduced LCR requirement should be revised to align with the "modified" LCR requirement that applies to certain holding companies. Other commenters asserted that the proposed reductions in LCR requirements were not sufficiently justified. Certain commenters argued against the inclusion of the $50 billion short-term wholesale funding threshold for application of reduced standardized liquidity requirements under Category IV.

Capital and stress testing: Many commenters supported the proposed reduction in frequency of supervisory and company-run stress testing, while other commenters argued that the proposed reductions were unnecessary and premature.

Some commenters requested the agencies permit all banking organizations, including those subject to Category I or II, to opt out of the requirement to reflect elements of AOCI in regulatory capital. Other commenters opposed an AOCI opt-out for any banking organization subject to the proposals.

Comments on the foreign bank proposals:

Commenters criticized the proposed application of certain requirements to a IHC based on the risk profile of the foreign banking organization's combined U.S. operations rather than based on the risk indicators of the IHC as if it were a stand-alone firm, and argued that the risk-based indicators disproportionately and unfairly affected foreign banks. Commenters argued that the proposals did not provide sufficient recognition of standards applied to the foreign parent or the capacity for a foreign parent to support its U.S. operations. For example, commenters argued that application of the supplementary leverage ratio to the IHC was unnecessary because the foreign parent is subject to this requirement on a consolidated basis. These commenters also

argued that the proposals did not sufficiently recognize principle of national treatment and equality of competitive opportunity, and could lead to increased market fragmentation.

Commenters objected to the inclusion of inter-affiliate transactions in all risk-based indicators, arguing that the inclusion of inter-affiliate transactions disadvantaged foreign banking organizations relative their U.S. peers. Commenters generally supported the proposals elimination of certain inter-affiliate transactions from the cross-jurisdictional activity indicator, but argued that these modifications were not sufficient.

Branch Liquidity: Many commenters opposed the application of standardized liquidity requirements to the U.S. branch and agency network of a foreign bank. They argued that the existing home-host regulatory balance is sufficient to address liquidity risk, that applying standardized liquidity requirements could result in increased market fragmentation. These commenters argued that the development of any standardized branch liquidity standards should occur through international forums and in coordination with other regulatory bodies. Other commenters supported the application of standardized liquidity requirements to the U.S. branch and agency network of a foreign bank.

<u>Covered savings and loan holding companies</u>:

Some commenters argued that the Board should not apply additional prudential standards to covered savings and loan holding companies, arguing that the application of these standards was inconsistent with the Dodd-Frank Act and Home Owners' Loan Act. These commenters also argued that the risk-based indicators did not accurately represent risks to safety and soundness for covered savings and loan holding companies. If the Board applies prudential requirements to covered savings and loan holding companies, commenters requested relief on capital planning and single-counterparty credit limits, as well as longer conformance periods.

<u>Reporting</u>:

Commenters expressed concern regarding the proposed reporting requirements and argued for additional reductions in reporting requirements. For example, foreign bank commenters opposed changes to the FR Y-15 that would collect systemic risk information from the combined U.S. operations of a foreign banking organization.

<u>Timing and effective date</u>:

Commenters generally asked for long phase-ins for increases in requirements, such as when a banking organization moves to a more stringent category of standards or becomes subject to increased reporting requirements.

Appendix B
Requirements for Domestic and Foreign Banking Organizations*

	Category I U.S. GSIBs	Category II ≥ $700b Total Assets or ≥ $75b in Cross-Jurisdictional Activity	Category III ≥ $250b Total Assets or ≥ $75b in nonbank assets, wSTWF, or off-balance sheet exposure	Category IV Other firms with $100b to $250b Total Assets	Other Firms $50b to $100b Total Assets
Capital	**TLAC/Long-term debt** **Stress Testing** • Annual company-run stress testing • Annual supervisory stress testing • Annual capital plan submission **Risk-Based Capital** • GSIB surcharge • Advanced approaches • Countercyclical Buffer • No opt-out of AOCI capital impact **Leverage capital** • Enhanced supplementary leverage ratio	**Stress Testing** • Annual company-run stress testing • Annual supervisory stress testing • Annual capital plan submission **Risk-Based Capital** • Advanced approaches • Countercyclical Buffer • No opt-out of AOCI capital impact **Leverage capital** • Supplementary leverage Ratio	**Stress Testing** • Company-run stress testing every other year • Annual supervisory stress testing • Annual capital plan submission **Risk-Based Capital** • Countercyclical Buffer • Allow opt-out of AOCI capital impact **Leverage capital** • Supplementary leverage ratio	**Stress Testing** • Supervisory stress testing (two-year cycle) • Annual capital plan submission **Risk-Based Capital** • Allow opt-out of AOCI capital impact **Leverage capital**	**Risk-Based Capital** • Allow opt-out of AOCI capital impact **Leverage capital**
SCCL	**Single-counterparty credit limits (SCCL)** • BHC/IHC level SCCL • FBOs: Meet home country requirement	**SCCL** • BHC/IHC level SCCL • FBOs: Meet home country requirement	**SCCL** • BHC/IHC level SCCL • FBOs: Meet home country requirement	**SCCL** • FBOs: Meet home country requirement if global assets≥$250B	**SCCL** • FBOs: Meet home country requirement if global assets≥$250B
Liquidity (Holding Company)	**Standardized** • Full daily LCR (100%) • Proposed full daily NSFR† (100%)	**Standardized** • Full daily LCR (100%) • Proposed full daily NSFR† (100%)	**Standardized** • If wSTWF < $75b: Reduced daily LCR and NSFR† (85%) • If wSTWF ≥ $75b: Full daily LCR and proposed NSFR† (100%)	**Standardized** • If wSTWF < $50b: No LCR • If wSTWF ≥ $50b: Reduced monthly LCR and proposed NSFR† (70%)	
Liquidity (Combined U.S. Operation)	**Reporting** • Report FR 2052a daily **Internal** • Liquidity stress tests (monthly) • Liquidity risk management	**Reporting** • Report FR 2052a daily **Internal** • Liquidity stress tests (monthly) • Liquidity risk management	**Reporting** • If wSTWF < $75b: Report FR 2052a monthly • If wSFWF ≥ $75b: Report FR 2052a daily **Internal** • Liquidity stress tests (monthly) • Liquidity risk management	**Reporting** • Report FR 2052a monthly **Internal** • Liquidity stress tests (quarterly) • Tailored liquidity risk management	
Holding Company	**U.S. IHC Requirement**	**U.S. IHC Requirement**	**U.S. IHC Requirement**	**U.S. IHC Requirement**	**U.S. IHC Requirement**

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* Certain requirements for a foreign bank are determined by the size of its intermediate holding company, whereas other requirements are determined by the size of the firm's combined U.S. operations. Capital and standardized liquidity standards are determined by the size of the intermediate holding company. Other foreign banks with limited U.S. presence would be subject to certain minimum standards. † The proposed NSFR will not be finalized as a result of the tailoring final rules.

Glossary: wSTWF – weighted short-term wholesale funding; HCs –bank, savings and loan, or intermediate holding company; CUSO – combined U.S. operations; AOCI – accumulated other comprehensive income; CCAR – Comprehensive Capital Analysis and Review; LCR – liquidity coverage ratio.

List of Domestic Firms by Projected Category (based on estimated data) ‡

	Category I U.S. GSIBs	Category II ≥ $700b Total Assets or ≥ $75b in Cross-Jurisdictional Activity	Category III ≥ $250b Total Assets or ≥ $75b in NBA, wSTWF, or Off-balance sheet exposure	Category IV Other firms with $100b to $250b Total Assets	Other firms $50b to $100b Total Assets
U.S. Domestic Banking Org.	Bank of America Bank of New York Mellon Citigroup Goldman Sachs JPMorgan Chase Morgan Stanley State Street Wells Fargo	Northern Trust	Capital One Charles Schwab PNC Financial U.S. Bancorp	Ally Financial American Express BB&T Corp. Citizens Financial Discover Fifth Third Huntington KeyCorp M&T Bank Regions Financial SunTrust Inc. Synchrony Financial	Comerica Inc. CIT Group Inc. E*TRADE Financial NY Community Bancorp Silicon Valley Bank

List of Foreign Firms by Projected Category (standards vary by legal entity)

	Category I U.S. GSIBs	Category II ≥ $700b Total Assets or ≥ $75b in Cross-Jurisdictional Activity	Category III ≥ $250b Total Assets or ≥ $75b in NBA, wSTWF, or Off-balance sheet exposure	Category IV Other firms with $100b to $250b Total Assets	Other firms $50b to $100b Total Assets
Intermediate Holding Company			Barclays* Credit Suisse Deutsche Bank HSBC Toronto-Dominion UBS	Bank of Montreal BNP Paribas MUFG Royal Bank of Canada Santander	BBVA
Combined U.S. Operations		Barclays Credit Suisse Deutsche Bank MUFG	HSBC Mizuho Royal Bank of Canada Toronto-Dominion UBS	Banco Santander Bank of Nova Scotia Bank of Montreal BBVA BNP Paribas BPCE Société Genéralé Sumitomo Mitsui	Canadian Imperial Crédit Agricole I & C bank of China Norinchukin Rabobank

‡ Projected categories are based on data for Q1 2019. Actual categories would be based on 4-quarter averages. For certain measures for foreign banks, conservative assumptions were used to estimate incomplete data.

* Identifies firms that would be subject to Category III standards with weighted short-term wholesale funding of more than $75 billion. Firms subject to Category III standards with weighted short-term wholesale funding of $75 billion or more would be subject to full standardized liquidity requirements.

Appendix C: Draft Order of Delegation

FEDERAL RESERVE SYSTEM

Order Delegating Authority to Make Certain Determinations under Regulation LL and Regulation YY

The Board hereby delegates to the Director of Supervision and Regulation, or his or her delegatee, in consultation with the General Counsel, or his or her delegatee, the authority to:

(1) Determine that an asset meets the criteria to be a highly liquid asset under the Board's prudential standards in Regulation LL and Regulation YY to the extent that such determination is consistent with the criteria specified in such regulations and does not raise any significant legal, policy, or supervisory concerns; and[22]

(2) Determine that a foreign banking organization may comply with the requirements in Regulation YY through a subsidiary to the extent that such determination is consistent with the criteria specified in Regulation YY and does not raise any significant legal, policy or supervisory concerns.[23]

By order of the Board of Governors,[24] effective October [__], 2019.

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Ann E. Misback
Secretary of the Board

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[22] *See* 12 CFR 238.124(b)(3)(i) (savings and loan holding companies); 12 CFR 252.35(b) (bank holding companies) and .157(c)(5)(i) (foreign banking organizations).

[23] *See* 12 CFR 252.3(c).

[24] Voting for this action: [______________________].