Regulatory Alert

Financial Services Regulatory Insight Center

November 2018

Proposed Framework for EPS, capital, and liquidity thresholds

Key points

- The Federal Reserve, FDIC, and OCC jointly proposed a new framework that would tailor the application of prudential standards and capital and liquidity rules based on the size and risk profiles of large banking organizations.
- As proposed, non-insurance, non-commercial SLHCs with $100 billion or more in total consolidated assets would be subject to the Federal Reserve's prudential standards in the same manner as BHCs.
- The Federal Reserve intends to publish three additional and related proposals covering FBOs, capital plans, and resolution recovery.

Summary

The Federal Reserve, FDIC, and OCC have jointly proposed a new framework that would tailor regulatory requirements for large U.S. banking organizations and their subsidiary depository institutions. The framework was introduced in two new proposals that would tailor the application of prudential standards and capital and liquidity rules, respectively.

The first proposal, from the Federal Reserve, would tailor the application of prudential standards related to capital and liquidity stress testing, liquidity risk management and buffer requirements, risk management, and single counterparty credit limits (SCCL). Savings and loans holding companies (SLHCs) would be subject to the full range of prudential standards to the same extent as BHCs. The second is an interagency proposal between the Federal Reserve, OCC, and FDIC that would tailor requirements under the agencies' capital rules, liquidity coverage ratio rules, and proposed net stable funding ratio rules. Neither proposal would apply to foreign banking organizations (FBOs), including their intermediate holding companies (IHCs), and these entities would continue to be subject to the current prudential standards. Comments on both proposals are due by January 22, 2019.

The proposed framework would divide firms into four categories based on their size and risk profile, consistent with the EGRRCPA. Highlights of the category standards follow.

- **Category I:** Would apply to U.S. GSIBs.
  - Prudential standards: Firms in this category would not see changes to the requirements in the enhanced prudential standards rule, except for one EGRRCPA change to remove the mid-cycle stress test requirement for all BHCs, effective in 2020.
  - Capital and liquidity: Firms in this category would not see changes to the capital and liquidity requirements.
- **Category II:** Would apply to U.S. banking organizations that are very large ($700 billion or more in total assets) or have significant international activity ($75 billion or more in

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cross-jurisdictional activity) and do not meet Category I standards.

- Prudential standards: Firms in this category would see changes to the requirements in the enhanced prudential standards rule, including removal of the mid-cycle stress test requirement and application of the SCCL rule to all firms that would be subject to Category II or III requirements, even those with less than $250 billion in total assets, based on the risk of the firm.
- Capital and liquidity: Firms in this category would generally not see changes to the capital and liquidity requirements though they would be subject to a qualitative assessment under CCAR.

— **Category III:** Would apply to banking organizations that are not Category I or II and have total consolidated assets of $250 billion or more, or $75 billion or more in any of the following indicators (nonbank assets, weighted short-term wholesale funding, or off-balance-sheet exposures). It would also apply to firms with total consolidated assets of between $100 billion and $250 billion with specific risk-based indicators.

- Prudential standards: Firms in this category would see changes to the requirements in the enhanced prudential standards rule including: removal of the mid-cycle stress test requirement, change in frequency of company-run stress test results every other year rather than annually, and application of the SCCL rule even if the firm has less than $250 billion in total assets.
- Capital and liquidity: Capital standards for firms in this category would include generally applicable risk-based capital requirements, the U.S. leverage ratio, the supplementary leverage ratio, and the countercyclical capital buffer. These firms would not be required to apply advanced approaches capital requirements, would have reduced standards for the Liquidity Coverage Ratio (LCR) and the proposed Net Stable Funding Ratio (NSFR) (such that the requirement would be equivalent to between 70 and 85 percent of the full LCR and NSFR requirements), and would be subject to a qualitative assessment under CCAR. However, firms within this category that have more than $75 billion in weighted short-term wholesale funding would be required to comply with the full LCR and NSFR requirements.

— **Category IV:** Would apply to banking organizations with total consolidated assets of $100 billion to $250 billion that do not meet the thresholds for one of the other categories.

- Prudential standards: Firms in this category would see reduced frequency of required internal liquidity stress testing ("to at least quarterly"), a move in supervisory stress tests from a one-year cycle to a two-year cycle, and the elimination of company-run stress tests.
- Capital and liquidity: Firms in this category would not be subject to the countercyclical capital buffer, the supplementary leverage ratio, the LCR, or the NSFR.

At the Federal Reserve's open board meeting, Governor Brainard cast the only dissenting vote, stating that the proposals went beyond the statutory mandate of EGRRCPA.

The Federal Reserve also intends to present three related proposals: prudential standards for the U.S. operations of FBOs, including IHCs; a proposal on the capital plan rule; and a joint proposal with the FDIC on resolution planning.

Discussion of proposed modifications to reporting forms and instructions appears on the following page.

For additional information please contact Deborah Bailey (EPS), Frank Manahan (Capital), or Jeff Dykstra (Liquidity).

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Proposed modifications to forms

Separately, the Federal Reserve published redlined versions of reporting forms and instructions on its 'Data Collections Currently under Review by the Board of Governors of the Federal Reserve System' page for the FR 2052a, FR Y-14A, FR Y-14M, FR Y-14Q, and FR Y-15 reports. The proposed updates to the FR Y-14A, FR Y-14M, FR Y-14Q, and FR Y-15 reports are minimal and include SLHCs in the reporting requirements.

The FR 2052a reporting modifications are more substantial and are aligned with the proposed banking Categories outlined above.

- Category I, Category II, and Category III banks with more than $75 billion in weighted short-term wholesale funding would continue to report the FR 2052a each business day and would be subject to T+2 timing of submission. FBOs identified as LISCC firms would be subject to these same requirements.
- Category III banks with less than $75 billion in weighted short-term wholesale funding would be required to report the FR 2052a monthly and would be subject to T+2 timing of submission. FBOs that are not identified as LISCC firms, but with combined U.S. assets of $250 billion or more would be subject to these same requirements.
- Category IV banks would be required to report the FR 2052a monthly and would be subject to T+10 timing of submission. FBOs that are not identified as LISCC firms and with combined U.S. assets of less than $250 billion would be subject to these same requirements.
- Additionally, Category III banks with less than $75 billion in weighted short-term wholesale funding and Category IV banks would be allowed to report all data in USD currency. These banks would also not need to report certain supplemental information, including Sleeper Collateral Receivables, Derivative Collateral Substitution Capacity, and Foreign Exchange.

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