To

Chief Executive Officers of All National Banks, Federal Savings Associations, and Federal Branches and Agencies; Department and Division Heads; All Examining Personnel; and Other Interested Parties

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) published a final rule in the Federal Register on November 1, 2019, that revises the framework for determining the applicability of regulatory capital and standardized liquidity requirements for large U.S. banking organizations, the U.S. intermediate holding companies (IHC) of certain foreign banking organizations, and certain of their depository institution subsidiaries.

The final rule is effective as of December 31, 2019.
**Note for Community Banks**

This final rule does not apply to community banks.

**Highlights**

- This interagency final rule adopts, with certain changes, the tailoring framework proposed on December 21, 2018, for domestic banking organizations and on May 24, 2019, for the U.S. IHCs of certain foreign banking organizations. The framework establishes four risk-based categories for determining the applicability of requirements under the agencies’ regulatory capital rule and liquidity coverage ratio (LCR) rule. Under the framework, requirements are applied to banking organizations (and certain of their subsidiary national banks and federal savings associations) based on five risk-based indicators—asset size, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance-sheet exposure—measured at the level of the U.S.-based top-tier banking organization.

- For capital, requirements applied to top-tier banking organizations also apply to their subsidiary national banks and federal savings associations. LCR requirements applicable to the top-tier banking organizations also apply to their subsidiary national banks and federal savings associations with total consolidated assets of $10 billion or more.

- *Category I standards* apply to U.S. global systemically important bank holding companies (GSIB).
  
  - Category I banking organizations must calculate risk-based capital ratios using both the advanced approaches and the standardized approach and are subject to (1) the U.S. leverage ratio, (2) the requirement to recognize elements of accumulated other comprehensive income (AOCI) in regulatory capital, (3) the requirement to expand the capital conservation buffer by the amount of the countercyclical capital buffer, if applicable, (4)...
enhanced supplementary leverage ratio standards, and (5) the GSIB surcharge.

- Category I banking organizations are subject to the full LCR requirement.
- **Category II standards** apply to U.S. banking organizations and U.S. IHCs with total consolidated assets of $700 billion or more or cross-jurisdictional activity of $75 billion or more that do not qualify as U.S. GSIBs.
  - Category II capital requirements are the same as Capital I capital requirements, with the exception that U.S. IHCs are not required to calculate risk-based capital requirements using the advanced approaches under the capital rule and instead use the generally applicable capital requirements. Category II domestic holding companies and their subsidiary national banks and federal savings associations are required to use the advanced approaches capital framework.
  - Category II banking organizations are subject to the full LCR requirement.
- **Category III standards** apply to U.S. banking organizations and U.S. IHCs that do not meet the criteria for Category I or II and have total consolidated assets of $250 billion or more. These standards also apply to U.S. banking organizations and U.S. IHCs with total consolidated assets of at least $100 billion and $75 billion weighted short-term wholesale funding, nonbank assets, or off-balance-sheet exposure.
  - Category III capital requirements under the final rule include (1) the generally applicable risk-based capital requirements; (2) the U.S. leverage ratio; (3) the supplementary leverage ratio; and (4) the countercyclical capital buffer. Category III banking organizations are not required to apply advanced approaches capital requirements and may opt out of recognizing AOCI in regulatory capital.
  - A banking organization subject to Category III standards with weighted short-term wholesale funding of $75 billion or more is subject to the full LCR requirement, while a Category III banking organization with weighted
short-term wholesale funding of less than $75 billion is subject to a reduced LCR requirement, calibrated at 85 percent of the full LCR requirement.

- **Category IV standards** apply to U.S. banking organizations and U.S. IHCs with total consolidated assets of $100 billion or more that do not meet the thresholds for one of the other three categories.
  - Category IV capital requirements consist of the generally applicable risk-based capital requirements and the U.S. leverage ratio. The capital requirements applicable to Category IV banking organizations are largely the same as the capital requirements applicable to banking organizations below the Category IV threshold.
  - The final rule applies a reduced LCR requirement, calibrated at 70 percent of the full LCR requirement, to a Category IV banking organization with weighted short-term wholesale funding of at least $50 billion but less than $75 billion, and applies no LCR requirement to Category IV banking organizations with less than $50 billion in weighted short-term wholesale funding.

**Background**

Many of the agencies' current rules, including the capital rule, the LCR rule, and the proposed net stable funding ratio (NSFR) rule, differentiate among banking organizations based on one or more risk indicators, such as total asset size and foreign exposure.

The capital rule categorizes banking organizations into two groups: (i) banking organizations subject solely to the standardized approach, 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), and (ii) advanced approaches banking organizations, which are generally 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 (advanced approaches banking organizations). Standardized approach banking organizations must calculate risk-weighted assets using the relatively simple standardized approach and must calculate a leverage ratio that measures regulatory capital relative to on-balance-sheet assets. Advanced approaches banking organizations must use the standardized approach to determine their risk-based capital ratios but are also subject to additional requirements, including the requirement to calculate a supplementary leverage ratio, which measures regulatory capital relative to on-balance-sheet and certain off-balance-sheet exposures.

The LCR rule currently distinguishes between banking organizations based on total asset size and foreign exposure. The full LCR requirement generally applies to advanced approaches banking organizations and to their depository institution subsidiaries with total consolidated assets equal to $10 billion or more. The proposed NSFR requirement would apply to the same banking organizations as the current LCR requirement.

Further Information

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Related Link

- “Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements”