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Transmittal Letter - See OCC 2014-47

OCC BULLETIN 2014-19
Subject: Regulatory Capital - Proposed Revisions to the Supplementary Leverage Ratio
Date: May 1, 2014
To: Chief Executive Officers of National Banks and Federal Savings Associations, All Department and Division Heads, All Examining Personnel, and Other Interested Parties

Description: Notice of Proposed Rulemaking

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 seeking comment on this notice of proposed rulemaking (NPR). The NPR would revise the calculation of total leverage exposure in a manner generally consistent with revisions to the international leverage ratio framework published by the Basel Committee on Banking Supervision in January 2014. The supplementary leverage ratio applies to all banking organizations subject to the agencies' advanced approaches risk-based capital framework.[1] The supplementary leverage ratio is the ratio of a banking organization's tier 1 capital to its total leverage exposure, which includes all on-balance-sheet assets and many off-balance-sheet exposures. The most significant changes proposed relate to the treatment of written credit derivatives and the application of credit conversion factors to the amount of certain off-balance-sheet items. The comment period for this NPR ends on June 13, 2014.

Highlights

- The NPR would make the following adjustments to the measure of total leverage exposure:
    - Add the amount of cash collateral received or posted for derivatives contracts except for cash variation margin that meets certain conditions.
    - Add the effective notional amount, subject to certain reductions, of each written credit derivative (i.e., credit derivatives for which the banking organization acts as the credit protection provider) or other similar instrument to the extent that the exposure is not offset by purchased credit protection that meets certain conditions.
    - Add the gross value of receivables of any repo-style transactions that do not meet certain conditions.
    - Add the counterparty credit risk associated with repo-style transactions.
    - Revise the treatment of other off-balance-sheet exposures; rather than including the full notional amount of each exposure, the revised measure of total leverage exposure would use the credit conversion factors set forth in the standardized approach in the 2013 revised capital rule, provided that no credit conversion factor can be less than 10 percent.
- The measure of total leverage exposure would continue to include the carrying value of a banking organization's on-balance-sheet assets (less amounts deducted from tier 1 capital), and a potential future exposure amount calculated for each derivative contract (or each single product netting set thereof).
- The NPR would clarify the leverage exposure calculation for a clearing member bank for a cleared derivative contract that the bank intermediates on behalf of a client.
- The NPR would require banking organizations to use a daily average of the total leverage exposure (the denominator) over each day of the reporting quarter.
- Banking organizations subject to the supplementary leverage ratio requirements are required to

calculate and publicly report their supplementary leverage ratios beginning the first quarter of 2015. The supplementary leverage ratio requirements are not effective until 2018.

Note for Community Banks

The proposed rule will not apply to community banks.

Further Information

Direct questions or comments to Roger Tufts, Senior Economic Advisor, Capital Policy Division, at (202) 649-6981; Nicole Billick, Risk Expert, Capital Policy Division, at (202) 649-7932; or Carl Kaminski, Counsel, or Henry Barkhausen, Attorney, Legislative and Regulatory Activities Division, at (202) 649-5490.

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Senior Deputy Comptroller and Chief National Bank Examiner

[1] Advanced-approaches banking organizations generally include those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance-sheet foreign exposure; other banking organizations that opt in to the advanced approaches; and depository institution subsidiaries of banking organizations that trigger one of the aforementioned thresholds.

Related Link

- "Notice of Proposed Rulemaking–Regulatory Capital–Proposed Revisions to the Supplementary Leverage Ratio" (PDF)