RESCINDED

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Transmittal rescinded.

Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards: Notice of Proposed Rulemaking

To

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

Summary

The Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System (Board) seek comment on a proposed rule that would modify their regulations regarding enhanced supplementary leverage ratio (eSLR) standards for U.S. top-tier bank holding companies identified as global systemically important bank holding companies (GSIB holding companies) and their insured depository institution (IDI) subsidiaries.

In relevant part, the proposed rule would (1) recalibrate the GSIB holding company eSLR buffer from 2 percent of total leverage exposure to 50 percent of each firm's GSIB risk-based capital surcharge, and (2) similarly recalibrate the eSLR requirement set forth in the prompt corrective action (PCA) framework applicable to covered IDIs, including certain national banks and federal savings associations.[1] The supplementary leverage ratio (SLR) would continue to be defined as the ratio of tier 1 capital to total leverage exposure.

Note for Community Banks

The proposed rule would not apply to community banks.

Highlights

The proposed rule would

- replace each U.S. GSIB holding company's flat 2 percent eSLR buffer with an eSLR buffer set to 50 percent of the firm's GSIB risk-based capital surcharge, as determined by the Board's GSIB risk-based capital surcharge rule. This firm-specific leverage buffer would still be met with tier 1 capital.
- revise the scope provisions of the OCC's eSLR rule to better align with the Board's rule by applying the eSLR to national banks and federal savings associations that are subsidiaries of GSIB holding companies identified by the Board.
- recalibrate the eSLR standard requirement in the PCA framework. Instead of requiring national banks and federal savings associations to maintain a 6 percent eSLR to be considered "well capitalized," the OCC proposes to mirror the eSLR calculation applied at the GSIB holding company level. Thus, a national bank or federal savings association that is a subsidiary of a GSIB holding company would determine the eSLR it

needs to maintain to be considered “well capitalized” for PCA purposes by adding 50 percent of its holding company’s GSIB risk-based surcharge to the 3 percent eSLR required to be considered “adequately capitalized.”

Background

Current capital rules provide that all advanced approaches banking organizations must maintain an SLR of at least 3 percent. The largest, most systemically important institutions, however, must maintain an even higher SLR (an eSLR). For bank holding companies, the eSLR applies to entities that are subject to the Board’s GSIB risk-based capital surcharge, which is determined using a multifactor systemic importance test. For national banks and federal savings associations, the eSLR currently applies to banks that have at least $700 billion in total consolidated assets or $10 trillion in assets under custody, or that are subsidiaries of bank holding companies that meet those thresholds.

The current eSLR requirements for U.S. GSIB holding companies became effective on January 1, 2018. Under these rules, GSIB holding companies must maintain tier 1 capital equal to 5 percent of total leverage exposure (3 percent SLR minimum plus a 2 percent eSLR buffer) to avoid limitations on making distributions (e.g., dividends) and certain discretionary bonus payments. The proposed rule would replace each U.S. GSIB holding company’s flat 2 percent eSLR buffer with an eSLR buffer set to 50 percent of the firm’s GSIB risk-based capital surcharge, as determined by the Board’s GSIB risk-based capital surcharge rule. This firm-specific leverage buffer would still be met with tier 1 capital.

The current eSLR requirements for national banks and federal savings associations became effective on January 1, 2018. Under the OCC’s eSLR rule, a national bank or federal savings association that is part of an organization with $700 billion or more in total consolidated assets or that has at least $10 trillion in assets under custody must maintain tier 1 capital equal to 6 percent of its total leverage exposure to be considered “well capitalized” under the PCA framework. The proposed rule would make two changes to the eSLR rule.

First, the proposed rule would revise the scope provisions of the eSLR rule to better align with the FRB’s rule. Specifically, the OCC’s proposed rule would remove the asset size thresholds and instead apply the eSLR to those national banks and federal savings associations that are subsidiaries of GSIB holding companies identified by the Board. Second, the proposed rule would recalibrate the eSLR standard in the PCA framework to mirror the calculation of the eSLR buffer applied by the Board to GSIB holding companies. Under the proposal, a national bank or federal savings association that is a subsidiary of a GSIB holding company would determine the eSLR ratio it needs to maintain to be considered “well capitalized” by adding 50 percent of its holding company’s GSIB risk-based surcharge to the 3 percent eSLR that it must maintain to be considered “adequately capitalized.”

Further Information

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Related Link

- “Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Certain of Their Subsidiary Insured Depository

Institutions" (PDF)

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[1] The Board has also proposed related amendments to its total loss-absorbing requirements (TLAC) rule that would (1) provide that each GSIB's leverage TLAC buffer is equal to 50 percent of the firm's GSIB surcharge, rather than 2 percent of total leverage exposure as under the current leverage TLAC buffer, and (2) align the calculation methodology used to calculate the TLAC risk-based and leverage buffer levels for GSIBs and the intermediate holding companies of foreign GSIBs with the methodology used to calculate outstanding external TLAC amounts for GSIBs.

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