

# Tailoring of Capital and Liquidity Standards for Foreign Banking Organizations: Notice of Proposed Rulemaking

## Summary

Replaced: See OCC 2019-52

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve), and the Federal Deposit Insurance Corporation (collectively, the agencies) are issuing a notice of proposed rulemaking that would establish a revised framework for determining requirements under the regulatory capital rule, the liquidity coverage ratio (LCR) rule, and the proposed net stable funding ratio (NSFR) rule for large foreign banking organizations (FBOs) with respect to certain U.S. operations based on their risk profile.

### Note for Community Banks

This proposed rule would not apply to community banks.

## To

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

## Highlights

- This proposed rule would generally align with a proposed rule applicable to domestic banking organizations issued by the agencies in December 2018.
- The proposed rule would amend the risk factors used to determine the application of regulatory capital requirements to certain U.S. intermediate holding companies of FBOs and their depository institution subsidiaries and the application of standardized liquidity requirements with respect to certain U.S. operations of large FBOs and depository institution subsidiaries controlled by such FBOs, each according to risk-based categories.
- For capital, the proposed rule would assign intermediate holding companies with total consolidated assets of \$100 billion or more and their depository institution subsidiaries to one of three categories based on risk characteristics of the intermediate holding company.
  - Category II institutions would be subject to the generally applicable capital requirements, the enhanced supplementary leverage ratio, and the countercyclical capital buffer (if activated). Category II institutions also would include most accumulated other comprehensive income (AOCI) in the measure of regulatory capital.
  - Category III institutions would be subject to the generally applicable capital requirements, the supplementary leverage ratio, and the countercyclical capital buffer, if applicable. Category III institutions would not include most AOCI in the measure of regulatory capital.

- Category IV institutions would be subject to the generally applicable capital requirements.
- For liquidity, the proposed rule would assign intermediate holding companies and their subsidiary depository institutions with consolidated assets of \$10 billion or more to categories based on risk characteristics of the combined U.S. operations of the parent FBO.
  - Category II institutions would be subject to a 100 percent LCR requirement and proposed 100 percent NSFR requirement.
  - Category III institutions with \$75 billion or more in weighted short-term wholesale funding within their U.S. operations would be subject to a 100 percent LCR requirement and a proposed 100 percent NSFR requirement. Category III institutions with less than \$75 billion in weighted short-term wholesale funding within their U.S. operations would be subject to a reduced LCR requirement and NSFR requirement.
  - Category IV institutions with \$50 billion or more in weighted short-term wholesale funding within their U.S. operations would be subject to a reduced LCR requirement and NSFR requirement. If a Category IV institution has less than \$50 billion in weighted short-term wholesale funding, it would not be subject to an LCR or NSFR requirement. The LCR and NSFR requirements would not apply to any depository institution subsidiaries of institutions subject to Category IV standards.
- The proposed rule invites comment on applying new liquidity requirements to FBOs to address liquidity risks posed by their U.S. branch and agency networks.

## Background

Many of the agencies' current rules, including the capital rule, the LCR rule, and the proposed 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

Please contact Mark Ginsberg, Senior Risk Expert, or Venus Fan, Risk Expert, Capital Policy Division, at (202) 649-6370; James Weinberger, Technical Expert, Treasury and Market Risk, at (202) 649-6360, or Carl Kaminski, Special Counsel, Chief Counsel's Office, at (202) 649-5490.

Jonathan V. Gould

Senior Deputy Comptroller and Chief Counsel

## Related Link

- [“Changes to Applicability Thresholds for Regulatory Capital Requirements for Certain U.S. Subsidiaries of Foreign Banking Organizations and Application of Liquidity Requirements to Foreign Banking Organizations, Certain U.S. Depository Institution Holding Companies, and Certain Depository Institution Subsidiaries” \(PDF\)](#)