

# The Final Tailoring Rules for U.S. Banking Organizations



November 21, 2019



© 2019 Davis Polk & Wardwell LLP | 450 Lexington Avenue | New York, NY 10017

This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's [privacy policy](#) for further details.

# Table of Contents

---

<b>1</b>	Introduction	3
<b>2</b>	Scope of Applicability	12
<b>3</b>	Categories of Firms	17
<b>4</b>	Requirements Applicable to Categories of Firms	35
<b>5</b>	Determination and Reporting, Initial Applicability and Changes in Category	54
	Davis Polk Contacts	61

---

# Introduction



# A New and Tailored Regulatory Framework

---

- The Federal Reserve adopted its final rule (the **Final EPS Tailoring Rule**) to tailor the U.S. bank regulatory framework for enhanced prudential standards (**EPS**) and the U.S. banking agencies adopted a final rule (the **Final Capital and Liquidity Tailoring Rule**) to tailor the U.S. Basel III capital and liquidity requirements (together, the **Final Tailoring Rules**).
- The Final Tailoring Rules become effective on December 31, 2019.
- The Final Tailoring Rules implement section 401 of the Economic Growth, Regulatory Relief and Consumer Protection Act (**EGRRCPA**) of 2018 to:
  - **increase the minimum asset threshold from \$50B to \$100B** for EPS under Section 165 of the Dodd-Frank Act;
  - tailor EPS and U.S. Basel III capital and liquidity standards for banking organizations with **\$100B or more** in total consolidated assets.
- The Final Tailoring Rules implement two separate proposals: (1) the tailoring proposal for U.S. banking organizations (the **Domestic Tailoring Proposal**), and (2) the tailoring proposal for foreign banking organizations (**FBOs**) that the banking agencies approached separately (the **FBO Tailoring Proposal**).
- This visual memorandum describes the Final Tailoring Rules for **U.S. banking organizations**. The regulatory framework for FBOs is described in a separate visual memorandum.

# Key Changes from the Domestic Tailoring Proposal

- Compared to the Domestic Tailoring Proposal, the Final Tailoring Rules made few changes for U.S. banking organizations:

Requirement	Key Changes from Domestic Tailoring Proposal
Alternative GSIB scoring methodology for <b>Category II</b> , <b>Category III</b> and <b>Category IV</b> standards	<ul style="list-style-type: none"> <li>Not adopted</li> <li>Only risk-based indicators approach adopted</li> </ul>
Reduced liquidity coverage ratio ( <b>LCR</b> ) (70% / 85%)	<ul style="list-style-type: none"> <li>Changed to two separate calibrations:               <ul style="list-style-type: none"> <li>85% of full LCR for <b>Category III</b> with &lt; \$75B of weighted short-term wholesale funding (<b>STWF</b>)</li> <li>70% of full LCR for <b>Category IV</b> with ≥ \$50B of weighted STWF</li> </ul> </li> </ul>
Reduced proposed net stable funding ratio ( <b>NSFR</b> ) (70% / 85%)	<ul style="list-style-type: none"> <li>Changed to two separate calibrations:               <ul style="list-style-type: none"> <li>85% of proposed NSFR for <b>Category III</b> with &lt; \$75B of weighted STWF</li> <li>70% of proposed NSFR for <b>Category IV</b> with ≥ \$50B of weighted STWF</li> </ul> </li> </ul>



The **reduced LCR** and **proposed NSFR** requirements for **Category IV firms** with ≥ \$50B of weighted STWF were not part of the original Domestic Tailoring Proposal, but were proposed for domestic and foreign firms under the FBO Tailoring Proposal

# Key Changes from the Domestic Tailoring Proposal (cont.)

Requirement	Key Changes from Domestic Tailoring Proposal
Liquidity buffer requirements	<ul style="list-style-type: none"><li>Amended definition of highly liquid assets to include high-quality liquid assets (<b>HQLAs</b>) for LCR purposes</li><li>Operational requirements added that (1) buffer must be under control of management function responsible for managing liquidity risk and (2) firm must demonstrate capability to monetize under each liquidity stress testing scenario</li></ul>
Definition of “large and noncomplex bank holding company” in capital plan rule to include <b>Category IV</b> firms	<ul style="list-style-type: none"><li>Proposed amendment not finalized</li><li>Federal Reserve will propose changes to the capital plan rule in a separate, future proposed rulemaking</li></ul>
Timing of reporting requirements	<ul style="list-style-type: none"><li>Most effective dates are the next reporting date after the effective date of the Final Tailoring Rules or June 30, 2020, for domestic firms</li><li>Extended amount of time to file FR Y-14A/Q/M reports for covered SLHCs that will be submitting FR Y-14 reports for the first time</li><li>Permit all <b>Category IV</b> firms to report on Form FR 2052a on a T+10 basis, rather than a T+2 basis as would have been required for certain <b>Category IV</b> firms</li></ul>
Cessation of advanced approaches and LCR requirements	<ul style="list-style-type: none"><li>Repealed previously applicable cessation provisions for advanced approaches requirements and the LCR – i.e., in each case, until appropriate banking agency determined that application of the requirement would not be appropriate in light of the firm’s asset size, level of complexity, risk profile or scope of operations</li></ul>

# Overview of the Final Tailoring Rules

---

- The Final Tailoring Rules create four main categories of U.S. banking organizations – **Categories I through IV** – determined by a combination of the following risk-based indicators:
  - the U.S. GSIB assessment methodology,
  - size,
  - cross-jurisdictional activity,
  - weighted STWF,
  - nonbank assets, and
  - off-balance sheet exposure

# Overview of the Final Tailoring Rules (cont.)

---

- The **category of a firm**, and in certain cases the extent to which the firm meets or exceeds one of the risk-based indicator thresholds, determines the specific EPS and capital and liquidity requirements applicable to the firm.
  - See **slide 17** for more detail on the categorization framework.
  - See **slide 35** for more detail on the specific requirements applicable to each category of firms.
- Overall, the Final Tailoring Rules:
  - for the eight **U.S. GSIBs**, leave existing requirements **virtually unchanged**
  - make **meaningful changes** to requirements applicable to U.S. **regional banks** that have **≥ \$100B and < \$700B in total consolidated assets** and **< \$75B in cross-jurisdictional activity and weighted STWF**.

# Structure of the Final Tailoring Rules

---

## Federal Reserve's Final EPS Tailoring Rule

- Amends EPS established through the **Federal Reserve's own regulations**:
  - supervisory and company-run Dodd-Frank Act Stress testing (**DFAST**),
  - liquidity risk management, stress testing and buffer requirements,
  - risk committee and risk management requirements, and
  - single-counterparty credit limits (**SCCL**).

## U.S. Banking Agencies' Final Capital and Liquidity Tailoring Rule

- Amends the U.S. banking agencies' **Basel III capital and liquidity rules**:
  - applicability of the advanced approaches for calculating counterparty credit risk,
  - recognition of accumulated other comprehensive income (**AOCI**) in Common Equity Tier 1 (**CET 1**) capital,
  - applicability of the simplified approach for minority interests and certain capital deductions for non-advanced approaches banking organizations (see note 10 on slide 11),
  - countercyclical capital buffer (**CCyB**),
  - the supplementary leverage ratio (**SLR**),
  - the LCR, and
  - the proposed NSFR.

# Summary of Requirements Applicable by Category

	Category IV	Category III	Category II	Category I – U.S. GSIBs
TLAC requirement				✓
GSIB surcharge				✓
Enhanced SLR				✓
Advanced approaches risk weights			✓	✓
AOCI recognized in capital	May opt out	May opt out	✓	✓
Simplified approach for minority interests and certain capital deductions	✓ <sup>1</sup>	✓ <sup>1</sup>	Ineligible	Ineligible
CCyB (if deployed)		✓	✓	✓
SLR		✓	✓	✓
Company-run DFAST <sup>2</sup>		Biennial (even years) <sup>3</sup>	Annual	Annual
SCCL		✓ <sup>4</sup>	✓ <sup>4</sup>	✓
LCR <sup>5</sup>	Reduced monthly (70%) <sup>6</sup> / None	Full / Reduced daily (85%) <sup>7</sup>	Full	Full
Proposed NSFR	Reduced (70%) <sup>6</sup> / None	Full / Reduced (85%) <sup>7</sup>	Full	Full
Proposed stress buffer requirements	✓ <sup>8</sup>	✓	✓	✓
Qualitative CCAR	TBD / Exempt <sup>9</sup>	TBD / Exempt <sup>9</sup>	TBD / Exempt <sup>9</sup>	TBD / Exempt <sup>9</sup>
Quantitative CCAR	“Flexible” annual <sup>8</sup>	Annual	Annual	Annual
Supervisory DFAST	Biennial (even years)	Annual	Annual	Annual
Internal liquidity stress testing	Quarterly	Monthly	Monthly	Monthly
Liquidity risk management	Slightly tailored	✓	✓	✓
Risk committee and risk management <sup>10</sup>	✓	✓	✓	✓

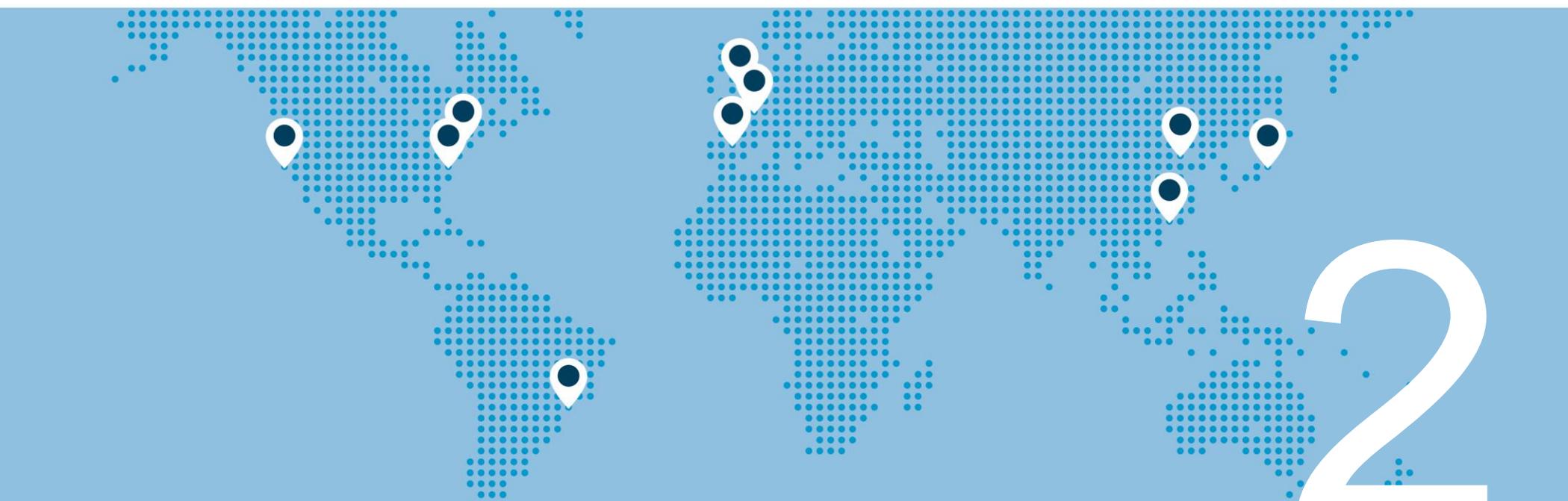
\* Footnotes to this chart are provided on the following slide

# Summary of Requirements Applicable by Category (cont.)

## Notes to Summary Requirements Chart

1. **Category III** and **Category IV** firms, as non-advanced approaches institutions, are eligible under the U.S. banking agencies' July 2019 **Capital Simplification Rule** for simplified approaches for (1) the recognition of minority interests in regulatory capital and (2) deductions from regulatory capital for mortgage servicing assets, certain deferred tax assets arising from temporary differences, and investments in the capital of unconsolidated financial institutions.
2. Company-run DFAST requirements apply not only to **Category I**, **Category II** and **Category III** U.S. BHCs and covered SLHCs but also to any IDI and any SLHC with  $\geq$  \$250B of average total consolidated assets over the prior four quarters.
3. A **Category III** firm is required to submit internal stress test results to the Federal Reserve as part of its annual capital plan submission, but is required to publicly disclose its company-run DFAST results only once every two even years.
4. A **Category II** or **Category III** firm's aggregate net credit exposure to a single counterparty is capped at 25% of tier 1 capital, which previously applied under the Federal Reserve's SCCL rule to U.S. BHCs that are not GSIBs and have  $\geq$  \$250B in total consolidated assets.
5. The applicable LCR and proposed NSFR requirement would also apply to an IDI subsidiary with  $\geq$  \$10B of total assets of any **Category I**, **Category II**, **Category III** or **Category III** firm.
6. A reduced monthly LCR and proposed NSFR of 70% of the relevant full requirement applies to a **Category IV** firm with  $\geq$  \$50B of weighted STWF.
7. A reduced daily LCR and proposed NSFR of 85% of the relevant full requirement applies to a **Category III** firm with  $<$  \$75B of weighted STWF.
8. In the Domestic Tailoring Proposal, the Federal Reserve stated that its final stress buffer requirements rule and a forthcoming capital planning proposal will require a **Category IV** firm to submit a streamlined annual capital plan, but that the stress loss portion of a **Category IV** firm's stress buffer requirements would be updated every two years (to align with the two-year supervisory DFAST cycle for **Category IV** firms), whereas the planned distributions portion of the stress buffer requirements would be updated annually (based on the firm's annual capital plan). The Final Tailoring Rules did not include this statement, noting instead that the Federal Reserve plans to propose changes to its capital planning rule as part of a separate proposal, including providing firms subject to **Category IV** standards additional flexibility to develop their annual capital plans.
9. The Final Tailoring Rules do not make any revisions to the definition of "large and noncomplex bank holding company" in the Federal Reserve's capital planning rule. Any such revisions will be made in a separate, future proposal to amend the capital planning rule. Since the publication of the Domestic Tailoring Proposal, the Federal Reserve amended the capital planning rule to exempt BHCs that are not large and noncomplex BHCs from being subject to a qualitative objection if a BHC was subject to the capital planning rule as of January 1, 2019, had been subject to review and a potential qualitative objection for a period of four consecutive years, and had not received a qualitative objection in the fourth year of that period.
10. The risk committee and risk management requirements apply not only to firms in Categories I – IV but also to any U.S. BHC or covered SLHC with  $\geq$  \$50B of total consolidated assets.

# Scope of Applicability



# The Final EPS Tailoring Rule

---

- The Federal Reserve's Final EPS Tailoring Rule amends EPS that apply to the top-tier U.S. bank holding companies (**BHCs**) and extends EPS, including the SCCL, to covered savings and loan holding companies (**SLHCs**)



## Definition of a covered SLHC

- A **covered SLHC** is any SLHC that is **not**:
- a top-tier SLHC that is a **grandfathered unitary SLHC** that derives 50% or more of its total consolidated assets or total revenues from activities that are **not** financial in nature under Section 4(k) of the Bank Holding Company Act,
- a top-tier depository institution holding company that is an **insurance underwriting company**, or
- a top-tier depository institution holding company that holds 25% or more of its total consolidated assets in **subsidiaries that are insurance underwriting companies** (other than assets associated with credit risk insurance)

## The Final EPS Tailoring Rule (cont.)

---

- Raises the asset threshold for applicability of the Federal Reserve's **capital planning rule** (Section 225.8 of Regulation Y) to BHCs **≥ \$100B**
- Amends the following Federal Reserve **reports** to conform to changes to EPS:
  - **FR 2052a** – Complex Institution Liquidity Monitoring Report;
  - **FR Y-9C/LP/SP/ES/CS** – Consolidated Financial Statements for Holding Companies;
  - **FR Y-14A/Q/M** – Capital assessments and Stress Testing; and
  - **FR Y-15** – Banking Organization Systemic Risk Report

# The Final Capital and Liquidity Tailoring Rule

---

- The U.S. banking agencies' Final Capital and Liquidity Tailoring Rule amends the U.S. banking agencies' **capital rules** that apply to:
  - U.S. BHCs, covered SLHCs and their respective insured depository institutions (**IDIs**), in each case that are currently subject to the capital rules, and
  - any IDI that **does not have a parent** BHC or covered SLHC
- The U.S. banking agencies' Final Capital and Liquidity Tailoring Rule amends the U.S. banking agencies' **liquidity rules** that apply to:
  - **Category I**, **Category II**, **Category III** and **Category IV** U.S. BHCs and covered SLHCs and their respective IDIs with  $\geq$  **\$10B** in total consolidated assets, and
  - any IDI that otherwise meets the **Category I**, **Category II**, **Category III** or **Category IV** criteria applicable to BHCs and covered SLHCs
- The U.S. banking agencies noted that no IDI that does not have a parent BHC or covered SLHC would be subject to the Final Capital and Liquidity Tailoring Rule (based on reported data for Q1 2019)

# Future Capital Planning Rule Proposal

---

- The Federal Reserve will propose **separate changes** to its capital planning rule, including:
  - applying capital planning and proposed stress buffer requirements to **covered SLHCs** with  $\geq$  \$100B in total consolidated assets; and
  - making other amendments to take into account the four categories of firms and their respective capital planning and proposed stress buffer requirements, such as:
    - “flexible” annual capital planning requirements for **Category IV** firms; and
    - the definition of “large and noncomplex bank holding company” – which currently determines which firms are subject to SR 15-19 (rather than SR 15-18) guidance on capital planning and positions

# Categories of Firms



# Categories of Firms

- The Final Tailoring Rules create four categories of firms:
  - **Category I – U.S. GSIBs**
  - **Category II**
  - **Category III** (this memorandum uses the lighter shade **Category III** if < \$75B of weighted STWF)
  - **Category IV** (this memorandum uses the lighter shade **Category IV** if < \$50B of weighted STWF)
- The category of firm determines the applicability of the following EPS and capital and liquidity requirements:

## EPS

- Supervisory and company-run DFAST, including related reporting requirements
- Liquidity risk management, stress testing and buffer, including related reporting requirements
- Risk committee and risk management requirements
- SCCL

## Capital and Liquidity Requirements

- GSIB surcharge
- The requirement to reflect AOCI in CET 1 capital
- CCyB, if deployed
- Advanced approaches for calculating risk-weighted assets
- Capital Simplification Rule
- SLR and enhanced SLR (**eSLR**)
- LCR – 100%, 85% or 70%
- Proposed NSFR – 100%, 85% or 70%
- Capital planning/CCAR (to be proposed in separate capital planning rule proposal)

# Category I and II Firms

## Category I

- Applies to **U.S. GSIBs**
  - Only U.S. BHCs, and not covered SLHCs or standalone IDIs, may be U.S. GSIBs
- Determined by existing U.S. GSIB assessment methodology under applicable provisions of the Federal Reserve’s capital rules

## Category II

- Firms that are **not U.S. GSIBs** and that have:
  - **≥ \$700B in total consolidated assets**, or
  - **≥ \$100B in total consolidated assets and ≥ \$75B in cross-jurisdictional activity**

The Federal Reserve describes **Category II** as consisting of U.S. BHCs that are **very large** or have **significant international activity**

- The standards applicable to **Category II** firms are based on those developed by the Basel Committee on Banking Supervision (**BCBS**) and other standards appropriate to very large or “internationally active” organizations
- This category thus appears to define the U.S. equivalent of “internationally active” banks to which the BCBS Basel III capital and liquidity standards are intended to apply globally
- The Federal Reserve justified cross-jurisdictional activity as risk-based indicator arguing that “[s]ignificant cross-border activity can indicate heightened interconnectivity and operational complexity” and that such activities may present increased challenges in resolution

# Category III and IV Firms

---

## Category III / Category III

- Firms that are not in Category I or II and that have:
    - **≥ \$250B in total consolidated assets**, or
    - **≥ \$100B** in total consolidated assets and **≥ \$75B** in any of the three following **specific risk indicators**:
      - Weighted STWF
      - Nonbank assets, or
      - Off-balance sheet exposure
- 

## Category IV / Category IV

- Firms that are not in Category I, II or III and that have **≥ \$100B in total consolidated assets**
    - i.e., **≥ \$100B < \$250B** asset firms that do not meet or exceed any of the specific risk-based indicators
-

# Criteria for Categorization of Firms

## U.S. GSIB ASSESSMENT METHODOLOGY

---

- Prior to the Final Tailoring Rules, the GSIB assessment methodology applied to advanced approaches U.S. BHCs
- The Final Capital and Liquidity Tailoring Rule amends the scope of applicability of subpart E of the U.S. Basel III capital rules (and thus the definition of “advanced approaches [institution]”) to include:

### ***Federal Reserve Capital Rule***

- A top-tier U.S. BHC or SLHC that is not a consolidated subsidiary of another BHC or SLHC that uses the advanced approaches to calculate its risk-based capital requirements, and that:
  - Is a U.S. GSIB
  - Is a **Category II** firm, or
  - Has a subsidiary IDI that is required or has elected to use the advanced approaches to calculate its risk-based capital requirements
- A state member bank that:
  - Is a subsidiary of a U.S. GSIB
  - Is a **Category II** firm, or
  - Is a subsidiary of a BHC, SLHC or IDI that uses the advanced approaches to calculate its risk-based capital requirements
- Any U.S. BHC, SLHC or IDI that has elected to use the advanced approaches to calculate its risk-based capital requirements

### ***OCC and FDIC Capital Rules***

- A national bank, federal savings association, state non-member bank or state savings association (as applicable) that:
    - Is a subsidiary of a U.S. GSIB
    - Is a **Category II** firm
    - Is a subsidiary of a BHC, SLHC or IDI that uses the advanced approaches to calculate its risk-based capital requirements, or
    - Elects to use the advanced approaches to calculate its risk-based capital requirements
-

# Criteria for Categorization of Firms

## U.S. GSIB ASSESSMENT METHODOLOGY (CONT.)

---

- Advanced approaches BHCs must currently calculate whether they are U.S. GSIBs on an annual basis by **December 31**
- The GSIB assessment methodology uses two different methods, **Method 1** and **Method 2** (see the following slide), and is based on the **higher** of the two scores produced by the two methods
  - Method 2 is calibrated to produce **higher scores** than Method 1

# Criteria for Categorization of Firms

## U.S. GSIB ASSESSMENT METHODOLOGY (CONT.)

---

**Method 1 Metrics.** Method 1 measures five main categories of systemic indicators and associated indicator weights:

- **Size** – measured by total exposures
- **Interconnectedness** – measured by:
  - Intra-financial system assets
  - Intra-financial system liabilities
  - Securities outstanding
- **Substitutability** – measured by:
  - Payments activity
  - Assets under custody
  - Underwritten transactions in debt and equity markets
- **Complexity** – measured by:
  - Notional amount of OTC derivatives
  - Trading and available for sale (**AFS**) securities
  - Level 3 assets
- **Cross-jurisdictional activity** – measured by:
  - Cross-jurisdictional claims
  - Cross-jurisdictional liabilities

**Method 2 Metrics.** Method 2 measures five main categories of systemic indicators and associated coefficient values:

- Four categories are **the same as Method 1** – size, interconnectedness, complexity, cross-jurisdictional activity
- Method 2 replaces substitutability category with **weighted STWF**, measured by:
  - Four main categories of STWF and four periods of remaining maturity

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS

---

- The thresholds for all of the risk-based indicators under the Final Tailoring Rules – size, cross-jurisdictional activity, weighted STWF, nonbank assets and off-balance sheet exposure – are based on the **average level** of each indicator measured over the **preceding four calendar quarters**
  - If a firm has not reported a relevant indicator for four calendar quarters, the measurement is based on the most recent quarter or consecutive quarters, as applicable
- Apart from size, the threshold for the specific risk-based indicators to determine a firm's category is a **uniform  $\geq$  \$75B**
  - A lower threshold of  $\geq$  \$50B of weighted STWF determines whether a **Category IV** firm is subject to a 70% LCR and 70% proposed NSFR
- The Final Tailoring Rules do **not** include a mechanism for **periodically adjusting** the thresholds to take into account the effects of, e.g., economic growth
  - The banking agencies acknowledged that the thresholds should be reevaluated over time to ensure they appropriately reflect growth on a macroeconomic and industry-wide basis, as well as to continue to support the objectives of the rule
  - The banking agencies declined to adopt an automatic indexing mechanism and stated that any changes to the thresholds would be made through the notice and comment process

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS (CONT.)

---

- **Size:**

- Measured by average total consolidated assets for four most recent quarters
- For each quarter in this average, total consolidated assets are measured as follows:
  - For a U.S. BHC or covered SLHC:
    - Total consolidated assets based on average of (i) daily balances or (ii) each Wednesday's balances, in each case for the calendar quarter
    - as reported on FR Y-9C
  - For an IDI:
    - total consolidated assets as reported on Call Report
    - presumably refers to average total consolidated assets on Schedule RC-K, which requires an IDI to calculate an average of (i) daily balances or (ii) each Wednesday's balances, in each case for the calendar quarter

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS (CONT.)

- **Size (cont.):**

- The Final EPS Tailoring Rule adds a **new line item M4** to Schedule A of FR Y-15 for total consolidated assets
- The following graphic shows average total consolidated assets as currently reported under Schedule HC-K of FR Y-9C:

**Schedule HC-K—Quarterly Averages**

	Dollar Amounts in Thousands	BHCK	Amount	
<b>Assets</b>				
1. Securities:				
a. U.S. Treasury securities and U.S. government agency obligations (excluding mortgage-backed securities) <sup>1</sup> .....		B558		1.a.
b. Mortgage-backed securities <sup>1</sup> .....		B559		1.b.
c. All other debt securities <sup>1</sup> and equity securities with readily determinable fair values not held for trading <sup>2</sup> .....		B560		1.c.
2. Federal funds sold and securities purchased under agreements to resell .....		3365		2.
		BHDM		
3. a. Total loans and leases in domestic offices .....		3516		3.a.
(1) Loans secured by 1–4 family residential properties .....		3465		3.a.(1)
(2) All other loans secured by real estate .....		3466		3.a.(2)
(3) Loans to finance agricultural production and other loans to farmers .....		3386		3.a.(3)
(4) Commercial and industrial loans .....		3387		3.a.(4)
(5) Loans to individuals for household, family, and other personal expenditures:				
(a) Credit cards .....		B561		3.a.(5)(a)
(b) Other (includes single payment, installment other than auto loans, all student loans, and revolving credit plans other than credit cards) .....		B562		3.a.(5)(b)
		BHFN		
b. Total loans and leases in foreign offices, Edge and agreement subsidiaries, and IBFs .....		3360		3.b.
<i>Item 4(a) is to be completed by holding companies with total trading assets of \$10 million or more in any of the four preceding calendar quarters.</i>				
		BHCK		
4. a. Trading assets .....		3401		4.a.
b. Other earning assets .....		B985		4.b.
5. Total consolidated assets <sup>3</sup> .....		3368		5.

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS (CONT.)

- **Cross-jurisdictional activity:**

- Measured by average cross-jurisdictional activity for four most recent quarters
- For each quarter in this average, cross-jurisdictional activity is measured as the sum of cross-jurisdictional assets and cross-jurisdictional liabilities, as reported on FR Y-15
- The Final EPS Tailoring Rule adds a **new line item 5** to Schedule E of FR Y-15 for cross-jurisdictional activity, which will equal item 1 plus item 4 of the current FR Y-15:

### Schedule E—Cross-Jurisdictional Activity Indicators

	U.S. Dollar Amounts in Thousands	RISK	Amount
<b>Cross-Jurisdictional Claims</b>			
1. Foreign claims on an ultimate-risk basis .....		M422	1.
<b>Cross-Jurisdictional Liabilities</b>			
2. Foreign liabilities (excluding local liabilities in local currency) .....		M423	2.
a. Any foreign liabilities to related offices included in item 2 .....		M424	2.a.
3. Local liabilities in local currency .....		M425	3.
4. Total cross-jurisdictional liabilities (sum of items 2 and 3, minus item 2.a) .....		M426	4.

- In the Final Capital and Liquidity Tailoring Rule, this threshold replaces the alternative threshold of  $\geq \$10B$  of on-balance sheet foreign exposures (as reported on FFIEC 009) in defining which firms are subject to the advanced approaches for calculating risk-based capital requirements

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS (CONT.)

---

- **Cross-jurisdictional activity (cont.):**

- Compared to FFIEC 009, cross-jurisdictional activity reported on FR Y-15 currently excludes derivatives positions
  - BCBS’s revised GSIB assessment methodology, which is expected to be implemented in national jurisdictions by January 2021 and to determine GSIB surcharges from January 2023, modifies the definition of cross-jurisdictional activity to include both derivatives assets and liabilities
  - The Federal Reserve anticipates that it will separately propose changes to FR Y-15 “in a manner consistent with” the BCBS’s modified definition, and that any related change to the cross-jurisdictional activity indicator would be effected through changes to FR Y-15
- The U.S. banking agencies view firms with significant cross-border activities as requiring more sophisticated management of the risks of ring-fencing by jurisdictions in times of stress, which could impede the movement of resources from one jurisdiction to another
- Meeting or exceeding the cross-jurisdictional activity threshold:
  - converts a **Category III** firm into a **Category II** firm
  - converts a **Category IV** firm directly into a **Category II** firm

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS (CONT.)

- Weighted STWF:**

- Measured by average weighted STWF for four most recent quarters
- For each quarter in this average, weighted STWF is measured as:
  - For **Category I**, **Category II** and **Category III** firms, which are subject to daily FR 2052a reporting: the average of daily values for the quarter
  - For **Category III** and all **Category IV** firms: the average of month-end values for the quarter
- Calculated in accordance with Method 2 of U.S. GSIB assessment methodology
- As reported on FR Y-15

**Schedule G—Short-Term Wholesale Funding Indicator**

	U.S. Dollar Amounts in Thousands							
	(Column A) Remaining Maturity of 30 Days or Less		(Column B) Remaining Maturity of 31 to 90 Days		(Column C) Remaining Maturity of 91 to 180 Days		(Column D) Remaining Maturity of 181 to 365 Days	
	RISK	Amount	RISK	Amount	RISK	Amount	RISK	Amount
<b>Short-term Wholesale Funding</b>								
1. First tier:								
a. Funding secured by level 1 liquid assets .....	Y838		Y839		Y840		Y841	
b. Retail brokered deposits and sweeps .....	Y842		Y843		Y844		Y845	
c. Unsecured wholesale funding obtained outside of the financial sector .....	Y846		Y847		Y848		Y849	
d. Firm short positions involving level 2B liquid assets or non-HQLA .....	Y850		Y851		Y852		Y853	
e. Total first tier short-term wholesale funding (sum of items 1.a through 1.d) ..	Y854		Y855		Y856		Y857	
2. Second tier:								
a. Funding secured by level 2A liquid assets .....	Y858		Y859		Y860		Y861	
b. Covered asset exchanges (level 1 to level 2A) .....	Y862		Y863		Y864		Y865	
c. Total second tier short-term wholesale funding (sum of items 2.a. and 2.b.) ..	Y866		Y867		Y868		Y869	
3. Third tier:								
a. Funding secured by level 2B liquid assets .....	Y870		Y871		Y872		Y873	
b. Other covered asset exchanges .....	Y874		Y875		Y876		Y877	
c. Unsecured wholesale funding obtained within the financial sector .....	Y878		Y879		Y880		Y881	
d. Total third tier short-term wholesale funding (sum of items 3.a through 3.c) ..	Y882		Y883		Y884		Y885	
4. All other components of short-term wholesale funding .....	Y886		Y887		Y888		Y889	
5. Total short-term wholesale funding, by maturity (weighted sum of items 1.e, 2.c, 3.d, and 4) .....	Y890		Y891		Y892		Y893	
	U.S. Dollar Amounts in Thousands							
6. Total short-term wholesale funding (sum of item 5, Columns A through D) .....	Y894							
7. Average risk-weighted assets .....	Y895							
8. Short-term wholesale funding metric (item 6 divided by item 7) .....	Y896							

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS (CONT.)

---

- **Weighted STWF (cont'd):**

- Weightings by residual maturity, whether funding is secured or not, types of collateral, and counterparty characteristics are intended to measure the risk of runnable liabilities and resulting fire sales, as well as interconnectedness and contagion risk
- Meeting or exceeding the weighted STWF threshold:
  - Converts a **Category IV** firm into a **Category III** firm
  - Subjects a **Category III** firm with  $\geq$  \$75B of weighted STWF to the **full 100%** LCR and proposed NSFR instead of the **85% reduced** LCR and proposed NSFR applicable to a **Category III** firm with  $<$  \$75B of weighted STWF
  - Subjects a **Category IV** firm with  $\geq$  \$50B but  $<$  \$75B of weighted STWF to the **70% reduced** LCR and proposed NSFR instead of being exempt from these liquidity requirements, as a **Category IV** firm with  $<$  \$50B of weighted STWF is

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS (CONT.)

---

- **Nonbank assets:**

- Measured by average nonbank assets for four most recent quarters
- For each quarter in this average, nonbank assets are measured as average month-end assets in consolidated nonbank subsidiaries and equity investments in unconsolidated nonbank subsidiaries
  - Excludes (i) IDIs and (ii) subsidiaries of IDIs, except for “Nonbanking” Edge Act or Agreement subsidiaries
- Intended to measure a firm’s business and operational complexity, as well as the extent to which activities may be conducted in subsidiaries subject to less prudential regulation than regulated banking entities
- Meeting or exceeding the nonbank asset threshold:
  - Converts a **Category IV** firm into a **Category III** firm

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS (CONT.)

- **Nonbank assets (cont.):**

- The Final EPS Tailoring Rule adds a **new line item M6** to Schedule A of FR Y-15 for nonbank assets
- The following graphic shows total nonbank assets as currently reported under FR Y-9LP:

**Schedule PC-B—Memoranda—Continued**

	Dollar Amounts in Thousands		
	BHCP	Amount	
16. Notes payable to special-purpose subsidiaries that issued trust preferred securities (included in Schedule PC, item 18.b and item 5.b above) .....	C255		16.
17. Total nonbank assets of a holding company subject to the Federal Reserve Board's capital plan rule. (To be completed only by a top-tier holding company that is subject to the Federal Reserve Board's capital plan rule (12 CFR 225.8) .....	HK02		17.

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS (CONT.)

---

- **Off-Balance Sheet Exposure**

- Measured by average off-balance sheet exposure for four most recent quarters
- For each quarter in this average, off-balance sheet exposure is measured as total exposure minus total consolidated assets as follows:

### *Total exposure*

- For **Category I**, **Category II** and **Category III** firms:
  - On-balance sheet components of total exposure is based on quarterly averages of daily values
  - Off-balance sheet components of total exposure is based on quarterly averages of month-end values
- For **Category IV** firms, total exposure (including on- and off-balance sheet components) are based on either averages or point-in-time values, as long as the same approach is used for all components

### *Total consolidated assets*

- For all firms, as noted on slide 25, total consolidated assets is measured by average (i) daily balances or (ii) each Wednesday's balances
  - Complements the asset size indicator, which reflects on-balance sheet assets
  - Meeting or exceeding the off-balance sheet exposure threshold:
    - Converts a **Category IV** firm into a **Category III** firm
-

# Criteria for Categorization of Firms

## SPECIFIC RISK-BASED INDICATORS (CONT.)

### • Off-Balance Sheet Exposure (cont.)

- The Final EPS Tailoring Rule adds a **new line item M5** to Schedule A of FR Y-15 for off-balance sheet exposure
- The following graphic shows total exposure as currently reported under FR Y-15 and average total consolidated assets as currently reported under FR Y-9C:

Schedule A—Size Indicator

U.S. Dollar Amounts in Thousands		RISK	Amount
<b>Total Exposures</b>			
1. Derivative exposures:			
a. Current exposure of derivative contracts	M337	1.a.	
b. Potential future exposure (PFE) of derivative contracts	M339	1.b.	
c. Gross-up for derivatives collateral	Y822	1.c.	
d. Effective notional amount of written credit derivatives	M340	1.d.	
e. Cash variation margin included as an on-balance sheet receivable	Y823	1.e.	
f. Exempted central counterparty legs of client-cleared transactions included in items 1(a) and 1(b)	Y824	1.f.	
g. Effective notional amount offsets and PFE adjustments for sold credit protection	Y825	1.g.	
h. Total derivative exposures (sum of items 1.a. through 1.d., minus the sum of items 1.e through 1.g.)	Y826	1.h.	
2. Securities financing transaction (SFT) exposures:			
a. Gross SFT assets	M334	2.a.	
b. Counterparty credit risk exposure for SFTs	N507	2.b.	
c. SFT indemnification and other agent-related exposures	Y827	2.c.	
d. Gross value of offsetting cash payables	Y828	2.d.	
e. Total SFT exposures (sum of items 2.a through 2.c, minus item 2.d.)	Y829	2.e.	
3. Other on-balance sheet exposures:			
a. Other on-balance sheet assets	Y830	3.a.	
b. Regulatory adjustments	M349	3.b.	
4. Other off-balance sheet exposures:			
a. Gross notional amount of items subject to a 0% credit conversion factor (CCF)	M342	4.a.	
b. Gross notional amount of items subject to a 20% CCF	M718	4.b.	
c. Gross notional amount of items subject to a 50% CCF	M346	4.c.	
d. Gross notional amount of items subject to a 100% CCF	M347	4.d.	
e. Credit exposure equivalent of other off-balance sheet items (sum of 0.1 times item 4.a, 0.2 times item 4.b, 0.5 times item 4.c, and item 4.d)	Y831	4.e.	
5. Total exposures prior to regulatory deductions (sum of items 1.h, 2.e, 3.a, and 4.e)	Y832	5.	

Schedule HC-K—Quarterly Averages

Dollar Amounts in Thousands		BHCK	Amount
<b>Assets</b>			
1. Securities:			
a. U.S. Treasury securities and U.S. government agency obligations (excluding mortgage-backed securities) <sup>1</sup>	B558	1.a.	
b. Mortgage-backed securities <sup>1</sup>	B559	1.b.	
c. All other debt securities <sup>1</sup> and equity securities with readily determinable fair values not held for trading <sup>2</sup>	B560	1.c.	
2. Federal funds sold and securities purchased under agreements to resell	3365	2.	
3. a. Total loans and leases in domestic offices			
(1) Loans secured by 1–4 family residential properties	3516	3.a.	
(2) All other loans secured by real estate	3465	3.a.(1)	
(3) Loans to finance agricultural production and other loans to farmers	3466	3.a.(2)	
(4) Commercial and industrial loans	3386	3.a.(3)	
(5) Loans to individuals for household, family, and other personal expenditures:	3387	3.a.(4)	
(a) Credit cards	B561	3.a.(5)(a)	
(b) Other (includes single payment, installment other than auto loans, all student loans, and revolving credit plans other than credit cards)	B562	3.a.(5)(b)	
b. Total loans and leases in foreign offices, Edge and agreement subsidiaries, and IBFs	BHFN	3.b.	
	3360		
<i>Item 4(a) is to be completed by holding companies with total trading assets of \$10 million or more in any of the four preceding calendar quarters.</i>			
	BHCK		
4. a. Trading assets	3401	4.a.	
b. Other earning assets	B985	4.b.	
5. Total consolidated assets <sup>3</sup>	3368	5.	

# Requirements Applicable to Categories of Firms



# Category I Requirements – U.S. GSIBs

- **Category I** firms, i.e., U.S. GSIBs, **remain subject** to all EPS and capital and liquidity requirements under the Final Tailoring Rule
- **Requirements Pursuant to the Federal Reserve’s Final EPS Tailoring Rule**
  - **No change** to EPS applicable to U.S. GSIBs, **except** for the elimination of mid-cycle (i.e., semi-annual) company-run DFAST effective in 2020 cycle
    - This change applies to **all** U.S. BHCs and covered SLHCs subject to company-run DFAST requirements and is intended to comply with EGRRCPA’s requirement to change frequency of mid-cycle company-run DFAST to “periodic”
- **Requirements Pursuant to the U.S. Banking Agencies’ Final Capital and Liquidity Tailoring Rule**
  - **No change** to capital and liquidity requirements applicable to U.S. GSIBs or to their IDIs, **except**:
    - The calculation of the  $\geq$  \$10B total consolidated assets threshold for application of LCR / proposed NSFR requirements to IDIs of U.S. GSIBs changes from the most recent year-end to average total consolidated assets over the four most recent calendar quarters
    - This change applies to **all** U.S. BHCs’ and covered SLHCs’ IDI subsidiaries subject to the  $\geq$  \$10B total consolidated assets threshold for applicability of the LCR and proposed NSFR requirements (i.e., **Category I**, **Category II**, **Category III** and **Category III** firms)

# Category II Requirements

- **Category II** firms are subject to all EPS and capital and liquidity requirements **except** those that apply solely to U.S. GSIBs:
  - TLAC final rule
  - GSIB surcharge
  - eSLR
- **Requirements Pursuant to the Federal Reserve’s Final EPS Tailoring Rule**
  - **Risk management and risk committee requirements**, including responsibilities for liquidity risk management
  - **Liquidity risk management requirements**, including:
    - Independent review function to evaluate liquidity risk management
    - Cash flow projections covering short-term and long-term time horizons, updated daily (short-term) and monthly (long-term)
    - Contingency funding plan, updated at least annually and when warranted by changes in market and idiosyncratic conditions
    - Liquidity risk limits, including on:
      - Concentration in sources of funding
      - Amount of liabilities maturing within various time horizons
      - Off-balance sheet exposures

## Category II Requirements (cont.)

---

- **Liquidity risk management requirements**, including (*cont.*):
    - Collateral monitoring policies and procedures, including **weekly** calculation of collateral positions
    - Procedures for monitoring and controlling liquidity risk exposures and funding needs across significant legal entities, currencies and business lines
    - Procedures for monitoring intraday liquidity risk exposures, including:
      - Monitoring and measuring expected daily gross liquidity inflows and outflows
      - Managing and transferring collateral to obtain intraday credit
      - Considering amounts of collateral and liquidity needed to meet payment systems obligations
  - **Liquidity stress testing and buffer requirements**, including:
    - **Monthly** liquidity stress tests covering the following planning horizons: overnight, 30 days, 90 days, one year
    - Liquidity buffer consisting of unencumbered, highly liquid assets to meet projected net stressed cash flow needs over the 30-day planning horizon
    - **Daily** liquidity monitoring reporting on Form FR 2052a
      - Removal of  $\geq$  \$10 trillion assets under custody threshold for applicability of daily FR 2052a reporting requirements
  - **Annual supervisory and company-run DFAST**, including:
    - Supervisory stress test conducted by Federal Reserve and public disclosure of results by Federal Reserve
    - Company-run stress test conducted by BHC or covered SLHC and public disclosure of summary of results by company
    - FR Y-14 reporting requirements, including requirement to conduct annual internal stress test and report results to Federal Reserve in connection with submission of annual capital plan
  - **SCCL** applicable to a “covered company”, including:
    - Aggregate net credit exposure limit of 25% of Tier 1 capital to any counterparty
-

## Category II Requirements (cont.)

---

- Requirements Pursuant to the U.S. Banking Agencies' Final Capital and Liquidity Tailoring Rule
  - Advanced approaches capital requirements
    - A **Category II** firm meets the definition of “advanced-approaches [institution]”
    - Must reflect the impact of AOCI in CET 1 capital and thus in regulatory capital
    - Must calculate its risk-based capital ratios in accordance with the advanced approaches and deduct the amount of expected credit loss in excess of eligible credit reserves from CET 1 capital
      - Only after the firm has completed its parallel run process and has been advised by its applicable federal banking supervisor that it must begin calculating its risk-based capital requirements under subpart E of the applicable capital rule
    - **Not** eligible for the simplified approach for minority interests and certain capital deductions under the Capital Simplification Rule

## Category II Requirements (cont.)

---

### – Advanced approaches capital requirements (cont.)

- Must calculate its risk-based capital ratios in accordance with the standardized approach and, if the firm is also calculating its risk-based capital ratios in accordance with the advanced approaches, must report the lower of the standardized approach and the advanced approaches risk-based capital ratios for each risk-based capital ratio
- In connection with separate Standardized Approach for Counterparty Credit Risk (**SA-CCR**) final rule:
  - For purposes of determining **advanced approaches** RWA amounts:
    - **May** elect to use SA-CCR or internal models methodology (**IMM**) for calculating uncleared derivatives exposure, and must use the same approach to determine trade exposure amount for cleared derivatives
    - **Must** use SA-CCR for calculating the RWA amount of central counterparty (**CCP**) default fund contributions
  - For purposes of determining **standardized approach** RWA amounts, **must** use SA-CCR for calculating uncleared derivatives exposure, trade exposure amount for cleared derivatives and the RWA amount of CCP default fund contributions
  - **Must** use SA-CCR for calculating SLR total leverage exposure arising from derivative contracts

## Category II Requirements (cont.)

---

- **SLR**
    - Subject to the SLR
  - **CCyB**
    - Subject to CCyB, if deployed
  - **LCR**
    - Subject to full daily LCR – i.e., 100% outflow adjustment percentage
    - Also applies to any IDI subsidiary with  $\geq$  \$10B of total assets
  - **Proposed NSFR**
    - Subject to full NSFR – i.e., 100% of required stable funding amount
    - Would also apply to any IDI subsidiary with  $\geq$  \$10B of total assets
  - **Capital Planning Requirements – under a separate, forthcoming Federal Reserve proposal:**
    - Annual capital planning requirements
    - Quantitative assessment of capital plan by Federal Reserve
    - Extent to which a **Category II** firm is still subject to, or exempt from, qualitative assessment of capital plan TBD
      - In any event, Large Financial Institution (**LFI**) rating system includes a supervisory assessment and rating of Capital Planning and Positions as a separate component
-

## Category III Requirements

- For a firm with **≥ \$250B of total consolidated assets or ≥ \$10B of total on-balance sheet foreign exposures** that, prior to the effectiveness of the Final Tailoring Rules, used the advanced approaches for calculating risk-based capital requirements, **Category III** represents a **meaningful change** to its capital and liquidity requirements:
  - Not required to calculate advanced approaches risk-weighted assets (**RWAs**) for counterparty credit risk
  - May opt out of recognizing AOCI in CET 1 capital and thus regulatory capital – thereby relieved of volatility arising from, e.g., unrealized gains or losses on AFS debt securities
  - Qualifies for reduced LCR and proposed NSFR requirements calibrated at 85% of full requirements if firm has < \$75B of weighted STWF
  - Qualifies for reduced frequency of liquidity monitoring reporting from daily to monthly if firm has < \$75B of weighted STWF
- **Requirements Pursuant to the Federal Reserve’s Final EPS Tailoring Rule**
  - **Risk management and risk committee requirements**, including responsibilities for liquidity risk management

## Category III Requirements (cont.)

---

– **Liquidity risk management requirements**, including:

- Independent review function to evaluate liquidity risk management
- Cash flow projections covering short-term and long-term time horizons, updated daily (short-term) and monthly (long-term)
- Contingency funding plan, updated at least annually and when warranted by changes in market and idiosyncratic conditions
- Liquidity risk limits, including on:
  - Concentration in sources of funding
  - Amount of liabilities maturing within various time horizons
  - Off-balance sheet exposures
- Collateral monitoring policies and procedures, including **weekly** calculation of collateral positions
- Procedures for monitoring and controlling liquidity risk exposures and funding needs across significant legal entities, currencies and business lines
- Procedures for monitoring intraday liquidity risk exposures, including:
  - Monitoring and measuring expected daily gross liquidity inflows and outflows
  - Managing and transferring collateral to obtain intraday credit
  - Considering amounts of collateral and liquidity needed to meet payment systems obligations

## Category III Requirements (cont.)

- **Liquidity stress testing and buffer requirements**, including:
  - **Monthly** liquidity stress tests covering the following planning horizons: overnight, 30 days, 90 days, one year
  - Liquidity buffer consisting of unencumbered, highly liquid assets to meet projected net stressed cash flow needs over the 30-day planning horizon
  - If  $\geq$  \$75B of weighted STWF – **daily** liquidity monitoring reporting on Form FR 2052a
    - Removal of  $\geq$  \$10 trillion assets under custody threshold for applicability of daily FR 2052a reporting requirements
  - If  $<$  \$75B of weighted STWF – **monthly** liquidity monitoring reporting on Form FR 2052a
- **Supervisory and company-run DFAST**, including:
  - **Annual** supervisory stress test conducted by Federal Reserve and public disclosure of results by Federal Reserve
  - **Biennial** (in even years) company-run stress test conducted by BHC or covered SLHC and public disclosure of summary of results by company
  - FR Y-14 reporting requirements, including requirement to conduct **annual** internal stress test and report results to the Federal Reserve in connection with the submission of its **annual** capital plan
    - Between years of company-run DFAST, a **Category III** firm would still be subject to annual internal stress test requirement for its capital plan submission, but results are reported solely to Federal Reserve and are not publicly disclosed
- **SCCL** applicable to a “covered company”, including:
  - Aggregate net credit exposure limit of 25% of Tier 1 capital to any counterparty

# Category III Requirements (cont.)

- Requirements Pursuant to the U.S. Banking Agencies' Final Capital and Liquidity Tailoring Rule
  - Standardized approach capital requirements
    - Not an “advanced-approaches [institution]”
    - May opt out of recognizing AOCI in CET 1 capital and thus regulatory capital
    - Eligible for the simplified approach for minority interests and certain capital deductions under the Capital Simplification Rule
    - Calculates risk-based capital ratios in accordance with the standardized approach
    - In connection with separate SA-CCR final rule, **may** elect to use SA-CCR or continue to use current exposure method (**CEM**) for calculating standardized approach RWAs, provided that the same approach (SA-CCR or CEM) is used to determine uncleared derivative exposures, trade exposure amount for cleared derivatives and the RWA amount for CCP default fund contributions
  - SLR
    - Subject to the SLR
    - Prior to effectiveness of the Final Capital and Liquidity Tailoring Rule, the SLR applied only to advanced approaches institutions, but the SLR now applies to **Category III** firms as well
    - In connection with separate SA-CCR final rule, **may** elect to use SA-CCR or continue to use CEM for calculating SLR total leverage exposure arising from derivative contracts, provided that the same approach (SA-CCR or CEM) is also used for purposes of standardized approach RWAs

# Category III Requirements (cont.)

---

## – CCyB

- Subject to the CCyB, if deployed
- Prior to effectiveness of the Final Capital and Liquidity Tailoring Rule, the CCyB, if deployed, would apply only to advanced approaches institutions, but the CCyB now applies to **Category III** firms as well

## – LCR

- Calibration of LCR requirements depends on whether a **Category III** firm meets or exceeds the weighted STWF threshold:
  - If  $\geq$  \$75B of weighted STWF, subject to full daily LCR – i.e., 100% outflow adjustment percentage
  - If  $<$  \$75B of weighted STWF, subject to reduced daily LCR – i.e., 85% outflow adjustment percentage
- In either case, the LCR includes the maturity mismatch add-on
- The Final Capital and Liquidity Tailoring Rule eliminates the current distinction in methodology between the full LCR (which included the maturity mismatch add-on) and the modified LCR (which excluded the maturity mismatch add-on)
- Applicable requirement also applies to any IDI subsidiary with  $\geq$  \$10B of total assets

# Category III Requirements (cont.)

- **Proposed NSFR**
  - Calibration of proposed NSFR requirements depends on whether a **Category III** firm meets or exceeds the weighted STWF threshold:
    - If  $\geq$  \$75B of weighted STWF, subject to full NSFR – i.e., 100% of required stable funding amount
    - If  $<$  \$75B of weighted STWF, subject to reduced NSFR – i.e., 85% of required stable funding amount
  - Applicable requirement also applies to any IDI subsidiary with  $\geq$  \$10B of total assets
- **Capital Planning Requirements – under a separate, forthcoming Federal Reserve proposal:**
  - Annual capital planning requirements
  - Quantitative assessment of capital plan by Federal Reserve
  - Extent to which a **Category III** firm is still subject to, or exempt from, qualitative assessment of capital plan TBD
    - In any event, LFI rating system includes a supervisory assessment and rating of Capital Planning and Positions as a separate component
  - The Final Tailoring Rules **did not amend** the definition of “large and noncomplex bank holding company” in the Federal Reserve’s capital planning rule
    - Definition currently determines which firms are subject to SR 15-19 (rather than SR 15-18) guidance on capital planning and positions

## Category IV Requirements

---

- Compared to the EPS, capital and liquidity, and capital planning requirements applicable to a firm with  $\geq$  \$100B of total consolidated assets prior to the effectiveness of the Final Tailoring Rules, **Category IV** represents **meaningful change** to its EPS and liquidity requirements:
  - Reduced frequency of liquidity stress testing and liquidity monitoring reporting requirements
  - Reduced frequency of supervisory DFAST and elimination of company-run DFAST
  - Eligible for exemption from LCR and proposed NSFR if weighted STWF  $<$  \$50B – otherwise reduced LCR and proposed NSFR calibrated at 70% of full requirements
- **Requirements Pursuant to the Federal Reserve’s Final EPS Tailoring Rule**
  - **Risk management and risk committee requirements**, including responsibilities for liquidity risk management

## Category IV Requirements (cont.)

---

- **Liquidity risk management requirements**, including:
  - Independent review function to evaluate liquidity risk management
  - Cash flow projections covering short-term and long-term time horizons, updated daily (short-term) and monthly (long-term)
  - Contingency funding plan, updated at least annually and when warranted by changes in market and idiosyncratic conditions
  - Liquidity risk limits consistent with established liquidity risk tolerance and that reflect its capital structure, risk profile, complexity, activities and size
  - Collateral monitoring policies and procedures, including **monthly** calculation of collateral positions
  - Procedures for monitoring and controlling liquidity risk exposures and funding needs across significant legal entities, currencies and business lines
  - Procedures for monitoring intraday liquidity risk exposures consistent with the firm's capital structure, risk profile, complexity, activities and size

## Category IV Requirements (cont.)

---

- **Liquidity stress testing and buffer requirements**, including:
    - **Quarterly** liquidity stress tests covering the following planning horizons: overnight, 30 days, 90 days, one year
    - Liquidity buffer consisting of unencumbered, highly liquid assets to meet projected net stressed cash flow needs over the 30-day planning horizon
    - **Monthly** liquidity monitoring reporting on Form FR 2052a
  - **Biennial supervisory DFAST**, including:
    - Biennial (in even years) supervisory stress test conducted by Federal Reserve and public disclosure of results by Federal Reserve
    - FR Y-14 reporting requirements, including requirement to conduct annual internal stress test and report results to Federal Reserve in connection with submission of annual capital plan
      - The Federal Reserve intends to consider changes to FR Y-14 reporting requirements for **Category IV** firms in a separate, forthcoming capital planning proposal (see below)
  - **No company-run DFAST**
  - **No SCCL**
-

## Category IV Requirements (cont.)

---

- **Requirements Pursuant to the U.S. Banking Agencies' Final Capital and Liquidity Tailoring Rule**
  - **Standardized approach capital requirements**
    - As a general matter, the same capital requirements as currently apply to firms with < \$250B in total consolidated assets and < \$10B of on-balance sheet foreign exposures
    - Not an “advanced-approaches [institution]”
    - May opt out of recognizing AOCI in CET 1 capital and thus regulatory capital
    - Eligible for the simplified approach for minority interests and certain capital deductions under the Capital Simplification Rule
    - Calculates risk-based capital ratios in accordance with the standardized approach
    - In connection with separate SA-CCR final rule, **may** elect to use SA-CCR or continue to use CEM for calculating standardized approach RWAs, provided that the same approach (SA-CCR or CEM) is used to determine uncleared derivatives exposures, trade exposure amount for cleared derivatives and the RWA amount for CCP default fund contributions
  - **No SLR**
    - Subject solely to the U.S. Tier 1 leverage ratio

# Category IV Requirements (cont.)

## – No CCyB

- Is subject solely to capital conservation buffers applicable to standardized approach firms –i.e., currently the capital conservation buffer and, when finalized, the stress capital buffer
- In the Domestic Tailoring Proposal, the Federal Reserve stated that it intends to apply stress buffer requirements to **Category IV** firms as follows:
  - Updated annually to reflect planned capital distributions
  - Updated biennially to reflect stress loss projections (presumably because Federal Reserve would only conduct supervisory DFAST every two years)
- The Final Tailoring Rules did not repeat the statement about how the stress buffer requirements would apply to **Category IV** firms

## – LCR

- Calibration of LCR requirements depends on whether a **Category IV** firm meets or exceeds the weighted STWF threshold:
  - If  $\geq$  \$50B of weighted STWF, the **Category IV** firm, but **not** any IDI subsidiary, is subject to reduced **monthly** LCR – i.e., 70% outflow adjustment percentage
  - If  $<$  \$50B of weighted STWF, the **Category IV** firm is exempt from the LCR
- If applicable, the LCR includes the maturity mismatch add-on
- The Final Capital and Liquidity Tailoring Rule eliminates the prior distinction in methodology between the full LCR (which included the maturity mismatch add-on) and the modified LCR (which excluded the maturity mismatch add-on)

# Category IV Requirements (cont.)

- **Proposed NSFR**
  - Calibration of proposed NSFR requirements depends on whether a **Category IV** firm meets or exceeds the weighted STWF threshold:
    - If  $\geq$  \$50B of weighted STWF, the **Category IV** firm, but **not** any IDI subsidiary, is subject to reduced NSFR – i.e., 70% of required stable funding amount, depending on how the agencies finalize the proposal
    - If  $<$  \$50B of weighted STWF, the **Category IV** firm is exempt from the proposed NSFR
- **Capital Planning Requirements – under a separate, forthcoming Federal Reserve proposal**
  - Annual capital planning requirements
  - Quantitative assessment of capital plan by Federal Reserve
  - Extent to which a **Category IV** firm is still subject to, or exempt from, qualitative assessment of capital plan TBD
    - In any event, LFI rating system includes a supervisory assessment and rating of Capital Planning and Positions as a separate component
  - The Final Tailoring Rules **did not amend** the definition of “large and noncomplex bank holding company” in the Federal Reserve’s capital planning rule
    - Definition currently determines which firms are subject to SR 15-19 (rather than SR 15-18) guidance on capital planning and positions
  - Federal Reserve intends to provide greater flexibility in how **Category IV** firms develop their capital plans and consider further changes to FR Y-14 forms

# Determination and Reporting, Initial Applicability and Changes in Category



# Determination and Reporting of Category

---

- A firm with  $\geq$  \$100B of average total consolidated assets is required to **determine its applicable category at least quarterly** and **report** size and other risk-based indicators on a **quarterly basis**
- Categories and requirements applicable to categories apply based on the **average level** of each indicator over the **preceding four calendar quarters**
  - If a firm has not reported a relevant indicator for four calendar quarters, the measurement is based on the most recent quarter or consecutive quarters, as applicable
  - For several indicators, the quarter-end level of the indicator is itself measured based on an average (e.g., total consolidated assets for each quarter are reported based on daily averaging or averaging over each Wednesday), resulting in an average-of-averages approach
- A firm would **remain within** a category (and therefore subject to the applicable requirements of that category) until:
  - It no longer meets the indicators for its current category in **each of the four most recent calendar quarters**, or
  - It meets the criteria for **another category** based on an **increase** in the average level of one or more indicators over the preceding four calendar quarters
    - This approach is consistent with the provisions for applicability or cessation of EPS applicable prior to the Final Tailoring Rules becoming effective
  - Previously applicable cessation provisions for calculating risk-based capital requirements under the advanced approaches and for being subject to the LCR (i.e., in each case, until appropriate banking agency determined that application of the requirement would not be appropriate in light of the firm's asset size, level of complexity, risk profile or scope of operations) are **repealed** by the Final Capital and Liquidity Tailoring Rule

# Initial Applicability of Requirements

## Risk Management and Risk Committee

- The risk management and risk committee requirements applicable to U.S. BHCs and covered SLHCs with  $\geq$  \$50B of total consolidated assets are initially applicable on the **first day of the ninth quarter** following the date on which the firm meets or exceeds the threshold

## Liquidity Risk Management and Liquidity Stress Testing

- The liquidity risk management and liquidity stress test requirements applicable to U.S. BHCs and covered SLHCs with  $\geq$  \$100B of total consolidated assets are initially applicable on the **first day of the fifth quarter** following the date on which a firm meets or exceeds the threshold

## Capital Planning

- The capital planning requirements applicable to U.S. BHCs and covered SLHCs with  $\geq$  \$100B of total consolidated assets are initially applicable:
  - If the threshold is met on or before September 30, beginning January 1 of the **next** calendar year
  - If threshold is met after September 30, beginning January 1 of the **second** calendar year after meeting the threshold

# Changes in Category

- A U.S. BHC that changes to a higher category would become subject to the requirements of the new category beginning on the dates (**Initial Compliance Dates**) as shown in the following chart:

Requirement	General Rule for Initial Compliance Date Following Change in Category	Initial Compliance Date Assuming Change of Category as of Dec. 31, 2020
CCyB (if deployed)	First day of the second quarter	April 1, 2021
SLR	First day of the second quarter	April 1, 2021
Company-run DFAST	If firm becomes subject to supervisory DFAST on or before September 30, then January 1 of the second following calendar year If firm becomes subject to supervisory DFAST after September 30, then January 1 of the third following calendar year	January 1, 2023
SCCL	First day of the ninth quarter	January 1, 2022
LCR	For a firm first becoming subject to the reduced monthly 70% LCR requirement as a <b>Category IV</b> firm, the first day of the third quarter	July 1, 2021
	For a firm first becoming subject to the full daily 100% or reduced daily 85% LCR as a <b>Category I</b> , <b>Category II</b> , <b>Category III</b> or <b>Category III</b> firm, as applicable: <ul style="list-style-type: none"> <li>Comply with the applicable full 100% or reduced 85% requirement <b>monthly</b> starting on the first day of the third quarter; and</li> <li>Comply with the applicable full 100% or reduced 85% requirement <b>daily</b> starting on the first day of the fifth quarter</li> </ul>	Monthly: July 1, 2021 Daily: January 1, 2022
Quantitative CCAR	If firm becomes subject to supervisory DFAST on or before September 30, then January 1 of the following calendar year If firm becomes subject to supervisory DFAST after September 30, then January 1 of the second following calendar year	January 1, 2022
Supervisory DFAST	If firm becomes subject to supervisory DFAST on or before September 30, then January 1 of the second following calendar year If firm becomes subject to supervisory DFAST after September 30, then January 1 of the third following calendar year	January 1, 2023
Internal liquidity stress testing	First day of the second quarter	April 1, 2021
Liquidity risk management	First day of the second quarter	April 1, 2021
Risk committee and risk management <sup>1</sup>	First day of the second quarter	April 1, 2021

1. A non-Category I – IV firm with ≥ \$50B of total consolidated assets must comply with the risk committee requirements on the first day of the ninth quarter following the date on which the firm meets or exceeds the total consolidated asset threshold.

# Changes in Category (cont.)

- A covered SLHC that changes to a higher category would become subject to the requirements of the new category beginning on the Initial Compliance Dates as shown in the following chart:

Requirement	General Rule for Initial Compliance Date Following Change in Category	Initial Compliance Date Assuming Change of Category as of Dec. 31, 2020
CCyB (if deployed)	First day of the second quarter	April 1, 2021
SLR	First day of the second quarter	April 1, 2021
Company-run DFAST <sup>1</sup>	If firm becomes subject to supervisory DFAST on or before September 30, then January 1 of the second following calendar year If firm becomes subject to supervisory DFAST after September 30, then January 1 of the third following calendar year	January 1, 2023
SCCL	First day of the ninth quarter	January 1, 2022
LCR	For a firm first becoming subject to the reduced monthly 70% LCR requirement as a <b>Category IV</b> firm, the first day of the third quarter	July 1, 2021
	For a firm first becoming subject to the full daily 100% or reduced daily 85% LCR as a <b>Category II</b> , <b>Category III</b> or <b>Category III</b> firm, as applicable: <ul style="list-style-type: none"> <li>Comply with the applicable full 100% or reduced 85% requirement <b>monthly</b> starting on the first day of the third quarter; and</li> <li>Comply with the applicable full 100% or reduced 85% requirement <b>daily</b> starting on the first day of the fifth quarter</li> </ul>	Monthly: July 1, 2021 Daily: January 1, 2022
Supervisory DFAST	If firm becomes subject to supervisory DFAST on or before September 30, then January 1 of the second following calendar year If firm becomes subject to supervisory DFAST after September 30, then January 1 of the third following calendar year	January 1, 2023
Internal liquidity stress testing	First day of the second quarter	April 1, 2021
Liquidity risk management	First day of the second quarter	April 1, 2021
Risk committee and risk management <sup>2</sup>	First day of the second quarter	April 1, 2021

1. Requirement applies to a **Category II** or **Category III** covered SLHC and to any SLHC with ≥ \$250B of average total consolidated assets.

2. A non-Category I – IV firm with ≥ \$50B of total consolidated assets must comply with the risk committee requirements on the first day of the ninth quarter following the date on which the firm meets or exceeds the total consolidated asset threshold.

## Changes in Category (cont.)

---

- For a firm that changes categories from **Category III** to **Category II** and becomes an advanced approaches institution for purposes of the applicable capital rule:
  - As supported by a statement in the preamble to the Final Capital and Liquidity Tailoring Rule, starting on the first day of the second quarter following the date on which it became a **Category II** firm, it would:
    - reflect the impact of **AOCI** in CET 1 capital, and thus in regulatory capital; and
    - no longer be eligible for the simplified approach for minority interests and certain capital deductions under the Capital Simplification Rule
  - It would not calculate its **risk-based capital ratios** in accordance with the advanced approaches or deduct the amount of expected credit loss in excess of eligible credit reserves from CET 1 capital until it had **completed its parallel run process** and been **advised by its applicable federal banking supervisor** that it must begin calculating its risk-based capital requirements under subpart E of the applicable capital rule
  - It would continue to be subject to the **SLR** and the **CCyB**, to the extent the CCyB is deployed, because as a **Category III** firm it would have already been subject to both requirements

# Applicable Dates for Reporting Requirements

- In response to comments the Final EPS Tailoring Rule establishes transition provisions for the first as-of date for the following reporting requirements:

Report (each as amended)	U.S. BHC	Covered SLHC
FR Y-15	June 30, 2020	June 30, 2020
FR 2052a	June 30, 2020	June 30, 2020
FR Y-14A	Next report after effective date of the Final EPS Tailoring Rule	December 31, 2021
FR Y-14Q	Next report after effective date of the Final EPS Tailoring Rule	June 30, 2020
FR Y-14M	Next report after effective date of the Final EPS Tailoring Rule	June 30, 2020
FR Y-9C	Next report after effective date of the Final EPS Tailoring Rule	Next report after effective date of the Final EPS Tailoring Rule
FR Y-9LP	Next report after effective date of the Final EPS Tailoring Rule	Next report after effective date of the Final EPS Tailoring Rule

# Davis Polk Contacts

---

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact

<b>John Banes</b>	<b>212 450 4116</b>	<a href="mailto:john.banes@davispolk.com"><u>john.banes@davispolk.com</u></a>
<b>Luigi L. De Ghenghi</b>	<b>212 450 4296</b>	<a href="mailto:luigi.deghenghi@davispolk.com"><u>luigi.deghenghi@davispolk.com</u></a>
<b>Randall D. Guynn</b>	<b>212 450 4239</b>	<a href="mailto:randall.guynn@davispolk.com"><u>randall.guynn@davispolk.com</u></a>
<b>Jai R. Massari</b>	<b>202 962 7062</b>	<a href="mailto:jai.massari@davispolk.com"><u>jai.massari@davispolk.com</u></a>
<b>Gabriel D. Rosenberg</b>	<b>212 450 4537</b>	<a href="mailto:gabriel.rosenberg@davispolk.com"><u>gabriel.rosenberg@davispolk.com</u></a>
<b>Margaret E. Tahyar</b>	<b>212 450 4379</b>	<a href="mailto:margaret.tahyar@davispolk.com"><u>margaret.tahyar@davispolk.com</u></a>
<b>Karen C. Pelzer</b>	<b>212 450 4652</b>	<a href="mailto:karen.pelzer@davispolk.com"><u>karen.pelzer@davispolk.com</u></a>
<b>Ryan Johansen</b>	<b>212 450 3408</b>	<a href="mailto:ryan.johansen@davispolk.com"><u>ryan.johansen@davispolk.com</u></a>
<b>Andrew Rohrkemper</b>	<b>212 450 3207</b>	<a href="mailto:andrew.rohrkemper@davispolk.com"><u>andrew.rohrkemper@davispolk.com</u></a>
<b>Greg Swanson</b>	<b>212 450 3374</b>	<a href="mailto:greg.swanson@davispolk.com"><u>greg.swanson@davispolk.com</u></a>

---