Proposed Rules

Federal Register
Vol. 87, No. 204
Monday, October 24, 2022

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

FEDERAL RESERVE SYSTEM

12 CFR Chapter II

[Docket No. R–1786]

RIN 7100–AG44

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Chapter III

RIN 3064–AF86

Resolution-Related Resource Requirements for Large Banking Organizations

AGENCY: Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation.

ACTION: Advance notice of proposed rulemaking; request for comment.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) and Federal Deposit Insurance Corporation (FDIC) (together, the agencies) are publishing for public comment this advance notice of proposed rulemaking (ANPR) to solicit public input regarding whether an extra layer of loss-absorbing capacity could improve optionality in resolving a large banking organization or its insured depository institution, and the costs and benefits of such a requirement. This may, among other things, address financial stability by limiting contagion risk through the reduction in the likelihood of uninsured depositors suffering loss, and keep various resolution options open for the FDIC to resolve a firm in a way that minimizes the long term risk to financial stability and preserves optionality. The agencies are seeking comment on all aspects of the ANPR from all interested parties and also request commenters to identify other issues that the Board and FDIC should consider.

DATES: Comments must be received on or before December 23, 2022.

ADDRESSES: Interested parties are encouraged to submit written comments jointly to both agencies. Commenters are encouraged to use the title ''ANPR Resolution-Related Resource Requirements for Large Banking Organizations'' to facilitate the organization and distribution of comments between the agencies. Commenters are also encouraged to identify the number of the specific question for comment to which they are responding. Comments should be directed to:

Board: You may submit comments, identified by Docket No. R–1786 and RIN 7100–AG44 by any of the following methods:

- *Agency Website: https://www.federalreserve.gov.* Follow the instructions for submitting comments at *https://www.federalreserve.gov/generalinfo/foia//ProposedRegs.cfm.*
- *Email: regs.comments@federalreserve.gov.* Include docket and RIN numbers in the subject line of the message.
- *Fax:* 202–452–3819 or 202–452–3102.
- *Mail:* Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.

Public Inspection: All public comments are available from the Board's website at *https://www.federalreserve.gov/generalinfo/foia//ProposedRegs.cfm* as submitted. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room M–4365A, 2001 C Street NW, Washington, DC 20551, between 9:00 a.m. and 5:00 p.m. during Federal business weekdays. For security reasons, the Board requires that visitors make an appointment to inspect comments. You may do so by calling (202) 452–3684. Upon arrival, visitors will be required to present valid government-issued photo identification and to submit to security screening in order to inspect and photocopy comments. For users of TTY–TRS, please call 711 from any telephone, anywhere in the United States.

FDIC: You may submit comments, identified by RIN 3064–AF86, by any of the following methods:

- *Agency Website: https://www.fdic.gov/resources/regulations/federal-register-publications/.* Follow instructions for submitting comments on the Agency website.
- *Email: comments@fdic.gov.* Include RIN 3064–AF86 on the subject line of the message.
- *Mail:* James P. Sheesley, Assistant Executive Secretary, Attention: Comments RIN 3064–AF86, Federal Deposit Insurance Corporation, 550 17th Street NW, Washington, DC 20429.
- *Hand Delivery/Courier:* Comments may be hand delivered to the guard station at the rear of the 550 17th Street NW building (located on F Street NW) on business days between 7:00 a.m. and 5:00 p.m.

Public Inspection: Comments received, including any personal information provided, may be posted without change to *https://www.fdic.gov/resources/regulations/federal-register-publications/.* Commenters should submit only information that the commenter wishes to make available publicly. The FDIC may review, redact, or refrain from posting all or any portion of any comment that it may deem to be inappropriate for publication, such as irrelevant or obscene material. The FDIC may post only a single representative example of identical or substantially identical comments, and in such cases will generally identify the number of identical or substantially identical comments represented by the posted example. All comments that have been redacted, as well as those that have not been posted, that contain comments on the merits of this notice will be retained in the public comment file and will be considered as required under all applicable laws. All comments may be accessible under the Freedom of Information Act.

FOR FURTHER INFORMATION CONTACT:

Board: Molly Mahar, Senior Associate Director, (202) 973–7360; Catherine Tilford, Deputy Associate Director, (202) 452–5240; Lesley Chao, Lead Financial Institution Policy Analyst, Policy Development, (202) 974–7063, Division of Supervision and Regulation; Charles Gray, Deputy General Counsel, (202) 510–3484, Reena Sahni, Associate General Counsel, (202) 452–2026, Jay Schwarz, Assistant General Counsel, (202) 452–2970, Andrew Hartlage, Senior Counsel, (202) 452–6483, Legal Division, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551. For users of TTY–TRS, please

call 711 from any telephone, anywhere in the United States.

FDIC: Andrew J. Felton, Deputy Director, (202) 898–3691; Ryan P. Tetrick, Deputy Director, (202) 898–7028; Jenny G. Traille, Associate Director, (202) 898–3608; Julia E. Paris, Senior Cross-Border Specialist, (202) 898–3821; Division of Complex Institution Supervision and Resolution; R. Penfield Starke, Assistant General Counsel, (202) 898–8501, *rstarke@fdic.gov;* David N. Wall, Assistant General Counsel, (202) 898–6575, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street NW, Washington, DC 20429.

SUPPLEMENTARY INFORMATION:

Background

Over the past decade, the Board of Governors of the Federal Reserve System (Board) and Federal Deposit Insurance Corporation (FDIC) (together, the agencies) have promulgated rules and guidance, both jointly and individually, to support the orderly resolution of large banking organizations.[1] These rules and related guidance are tiered based on the complexity and risks of different banking organizations: the most stringent rules apply only to global systemically important bank holding companies (GSIBs) and include requirements to submit a resolution plan every two years, follow a ''clean-holding company'' requirement that prohibits top-tier holding companies from entering certain financial arrangements (such as short-term borrowings or derivatives contracts) that might impede orderly resolution, adopt resolution-related stay provisions in qualified financial contracts (for example, establishing a set period of time during which a party to a qualified financial contract is restricted from terminating, liquidating, or netting such contract in the event of resolution), and maintain minimum outstanding amounts of total loss-absorbing capacity (TLAC) and long-term debt. The Board has issued supervisory guidance [2] on recovery planning that applies to GSIBs, and the FDIC has issued a rule to require certain covered insured depository institutions (CIDIs), including IDI subsidiaries of GSIBs, to periodically submit resolution plans to ensure that the FDIC can effectively carry out its responsibilities for the resolution of a CIDI in the event that it is appointed receiver under the Federal Deposit Insurance Act (FDI Act).[3]

For large banking organizations that are not U.S. GSIBs,[4] resolution planning requirements under Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act apply at a reduced frequency. Category II and Category III [5] large banking organizations file resolution plans on a triennial cycle,[6] alternating between submission of full and targeted resolution plans. Further, large banking organizations that are not GSIBs generally are not subject to TLAC or long-term debt requirements, clean holding company requirements, rules related to qualified financial contract stay provisions in resolution, or Board guidance on recovery planning.[7]

Since resolution-related rules and guidance were adopted, the U.S. banking system has continued to evolve. For example, in recent years, merger activity and organic growth have increased the size of large banking organizations that are not GSIBs, particularly those in Category III. As of December 2019, the domestic Category III firms had an average of approximately $413 billion in total consolidated assets, while as of December 2021, the same group of large banking organizations had grown to an average size of approximately $554 billion in total consolidated assets.[8] While most of these firms' overall business remains concentrated in traditional banking activities, and their proportion of total banking sector assets has remained relatively constant, their larger size heightens the potential impact of a possible costly resolution.

For the vast majority of bank resolutions, the FDIC pursues a strategy of selling the failed IDI to another depository institution, as this has been the course of action which was least-costly to the Deposit Insurance Fund (DIF) and minimized disruption to local communities and to the financial system. During the global financial crisis, there were limited and undesirable options available to the FDIC for resolving the largest failed IDIs including disruptive and costly liquidation strategies or the sale of large banks to even larger financial institutions. The challenges associated with the acquisition of a large, failed IDI continue to be significant, both operationally and financially; as a result, the universe of potential acquirers is limited. The availability of sufficient loss-absorbing resources at the depository institution would preserve franchise value and support the stabilization of the firm to allow for a range of options for the restructuring and disposition of the reduced firm in whole or in parts.

In addition, some large banking organizations have increased their reliance on large uninsured deposits to fund their operations over the past decade. These deposits may be less stable relative to insured deposits under conditions of firm-specific stress and resolution. Uninsured deposits comprise a significant portion of Category II and III banking organizations' funding base, standing at roughly 40% of total deposits as of the first quarter of 2022 as a group.[9] While GSIBs also have high levels of uninsured deposits, the regulatory resolution framework that has been built

[1] *E.g.,* Regulation QQ, 12 CFR part 243 (joint resolution planning rule); Regulation YY, 12 CFR part 252 (Board's enhanced prudential standards, including TLAC).

[2] SR Letter 14–1, Heightened Supervisory Expectations for Recovery and Resolution Preparedness for Certain Large Bank Holding Companies—Supplemental Guidance on Consolidated Supervision Framework for Large Financial Institutions (SR Letter 12–17/CA Letter 12–14) (January 24, 2014), *https://www.federalreserve.gov/supervisionreg/srletters/sr1401.htm.*

[3] 12 CFR 360.10.

[4] The term large banking organization refers to a domestic bank holding company, or domestic savings and loan holding company, that has $100 billion or more in total consolidated assets but is not a GSIB under the Board's capital rule, 12 CFR part 217, or a savings and loan holding company that would be identified as a GSIB under the Board's capital rule if it were a bank holding company. The total population of large banking organizations corresponds to Category II through IV firms under the Board's tiering framework for enhanced prudential standards. In this ANPR, the agencies are focused on domestic large banking organizations in Categories II and III, which generally exceed a threshold of $250 billion in total consolidated assets.

[5] Category II banking organizations have $700 billion or more in average total consolidated assets or $75 billion or more in cross-jurisdictional activity. Category III banking organizations have between $250 billion and $700 billion in average total consolidated assets or $75 billion or more in off-balance sheet exposures, nonbank assets, or short-term wholesale funding.

[6] In November 2019, the resolution plan rule was amended to modify plan submission requirements for firms that do not pose the same systemic risk as the largest institutions. The revised final rule established three types of resolution plans: the full plan, targeted plan, and reduced plan. Currently, U.S. GSIBs and Category II and III firms alternate between filing full and targeted plans. U.S. GSIBs alternate on a 2-year cycle while Category II and III firms alternate on a 3-year cycle. Category II and III firms last submitted targeted plans on December 17, 2021; under the rule they will next be required to submit full resolution plans on or before July 1, 2024. On September 30, 2022, the agencies issued a press release announcing their intention to issue forthcoming resolution planning guidance for Category II and III firms which have not already received guidance.

[7] U.S. intermediate holding companies of global systemically important foreign banking organizations, however, are subject to internal TLAC and long-term debt requirements. *See* 12 CFR part 252, subpart P.

[8] See FR Y–9C Schedule HC—Consolidated Balance Sheet, for Category II and III bank holding companies.

[9] See Call Report Schedule RC–O—Other Data for Deposit Insurance and FICO Assessments, for Category II and III banking organizations.

up around them—including TLAC and long-term debt requirements—help to mitigate related risks.

Finally, some large banking organizations have heightened cross-jurisdictional activity or significant non-bank operations that could present challenges to orderly resolution due to the complexities of coordinating among resolution authorities. While size alone can limit options and increase the potential negative impacts in the resolution of an IDI, other complexities can create risks from and impediments to resolution, including significant international operations requiring cross-border cooperation, and material operations, assets, liabilities and services outside the bank chain. These complicating features of bank resolution can raise challenges to the feasibility of creating and stabilizing a viable bridge depository institution or other resolution strategies for a failing insured depository institution due to multiple competing insolvencies, discontinuity of operations, and the destruction of value, and result in a disorderly and costly resolution.

As the profile of large banking organizations continues to evolve, with larger balance sheets and increased volume of uninsured deposits, and potentially more complex organizations, the agencies are considering whether additional measures are warranted to address financial stability impacts that might be associated with the failure of such firms. This includes whether an extra layer of loss-absorbing capacity could increase the FDIC's optionality in resolving the insured depository institution, and the potential costs of such a requirement. Additional loss-absorbing resources could limit contagion risk by reducing the likelihood of uninsured depositors suffering loss. These additional resources could also be useful in keeping various resolution options open for the FDIC to resolve a subsidiary depository institution in a way that minimizes the long term risk to financial stability; availability of such resources could help preserve optionality for resolving large IDIs across a range of scenarios in a manner that is least costly to the DIF without resorting to the sale of the firm being resolved to another large banking organization or GSIB. However, a long-term debt requirement could impact the cost and availability of credit.

GSIB vs. Large Banking Organization Resolution

GSIB and other large banking organization resolution strategies tend to follow one of two generally recognized approaches to resolution.[10] As described in the public sections of their resolution plans, the U.S. GSIBs have all adopted a single-point-of-entry (SPOE) resolution strategy, in which only the top-tier holding company would enter a resolution proceeding (bankruptcy) and in which losses would be passed up from subsidiaries to the parent company shareholders and long-term debt holders to recapitalize the subsidiaries. To facilitate this resolution strategy, the total loss-absorbing capacity (TLAC) rule requires a GSIB to maintain a minimum level of eligible long-term debt at the holding company level. Proceeds from issuance of long-term debt may be down-streamed to subsidiaries, such as in the form of internal debt, or maintained at the holding company to allocate as resource needs arise at particular subsidiaries. Prior to resolution, the top-tier holding company would down-stream all remaining available resources. Upon exhaustion of the remaining holding company resources it would enter resolution while the subsidiaries continue operating.

By allowing subsidiaries to continue operating after the resolution of the top-tier holding company, the SPOE resolution process limits the risk of multiple competing resolution processes across multiple resolution authorities and jurisdictions that could greatly complicate the resolution of a failing firm and impede the continuity of critical operations. An SPOE resolution also avoids losses to subsidiaries' third-party creditors and may reduce the need for asset fire sales that could pose broader risks to financial stability. The TLAC, long-term debt, and clean holding company requirements that the Board has applied to the U.S. GSIBs were generally designed to support an SPOE resolution strategy. These GSIB requirements enable loss-absorbing resources issued at the holding company level to be down-streamed to subsidiaries in a pre-positioned fashion, as well as to be made available on a flexible incremental basis where called for under stress.

Unlike the GSIBs, most large banking organizations do not have material broker dealers or international operations, and their assets and liabilities most often are overwhelmingly concentrated in the depository institution entity. Some have significant international footprints or significant activities, assets, and services outside the bank chain, but have less complex operations and fewer systemically important critical operations. As described in the public sections of the resolution plans filed by Category II and III large banking organizations, a multiple-point-of-entry (MPOE) resolution strategy is generally contemplated by these firms, in which the parent holding company would enter bankruptcy and the insured depository institution subsidiary would undergo FDIC-led resolution under the Federal Deposit Insurance Act (FDI Act). In conducting the insured depository institution-level resolution, the FDIC can, among other things, provide liquidity when necessary and take advantage of the statutory stays on derivatives and other qualified financial contracts, as well as its own historical experience in administering insured depository institution-level resolutions.

Drawing on that experience, the FDIC has several options for carrying out the resolution of an insured depository institution, including selling assets and transferring deposits to healthy acquirers, transferring assets and deposits to a bridge bank (which, among other things, could either sell off assets over time or conduct a sale or an IPO once the restructured business has stabilized), or executing an insured deposit payout. In deciding which option to pursue, the FDIC must show how it would meet the least-cost test set forth in the FDI Act in furtherance of its key objective of protecting insured depositors. While the FDI Act does contain a systemic risk exception to the least-cost test, the FDIC had never invoked the exception prior to the global financial crisis. While an MPOE resolution strategy may be appropriate for a large banking organization, without sufficient loss absorbing resources at the insured depository institution, the options available to the FDIC for resolving the subsidiary insured depository institution under the FDI Act may be limited. The size and funding profile of large banking organizations merits consideration of whether a larger set of options, supported by additional resources at the insured depository institution is needed to contain the impact of their failure on the larger financial system immediately and over time, and the potential costs of such an approach. Particularly for the largest and most complex large banking organizations, the availability of ex ante loss-absorbing capacity could be helpful in a range of resolution scenarios, including a bail-in recapitalization or a bridge bank, that would afford the FDIC the ability to stabilize operations, preserve franchise value, and provide more time to consider the impact on

[10] *See* 82 FR 8266, 8270 n.29 (January 24, 2017).

future financial stability of marketing a failed institution in whole or in parts.

Public Input

The agencies periodically review their existing regulations to ensure they appropriately address risks to safe and sound banking and financial stability and are issuing this ANPR to explore whether and how resolution-related standards applicable to large banking organizations could be strengthened to enable a more efficient resolution of a large banking organization, while mitigating effects to the financial system. The agencies are considering tiered requirements that distinguish between the set of standards in this area that are applied to GSIBs and the framework to be applied to other large banking organizations, given differences between their resolution strategies as well as large banking organizations' smaller size, less complex operations, and generally more limited operations outside of their U.S. insured depository institution. The agencies are interested in public comment on how appropriately-adapted elements of the GSIB resolution-related standards—including a long-term debt requirement potentially at the insured depository institution and/or the holding company level, a clean holding company requirement, or recovery planning guidance—could be applied to large banking organizations to enhance financial stability by providing for a wider range of resolution options and address related risks to safe and sound banking, the potential costs of such changes, and how these policies might be structured to achieve those goals most effectively and efficiently.

Long-Term Debt

The agencies are exploring whether requiring additional ex ante financial resources, such as qualifying forms of long-term debt, including at the insured depository institution, would improve the prospects for successful resolution of large banking organizations, the potential costs and the appropriate scope of any such requirement. The Board's current long-term debt requirements were designed to ensure that U.S. GSIBs maintain greater loss-absorbing capacity on a ''gone-concern'' basis in resolution and have resources available to recapitalize subsidiaries and maintain continuous operations even as the parent enters bankruptcy (as is the case in an SPOE resolution). Although some portion of going-concern regulatory capital might in certain circumstances remain available to absorb losses after a firm has entered resolution, a long-term debt requirement would address the fact that the firm's regulatory capital, and especially its equity capital, is highly likely to have been significantly or completely depleted in the lead-up to a resolution or bankruptcy.

While the current long-term debt requirement applicable to U.S. GSIBs was designed with the SPOE resolution strategies followed by the U.S. GSIBs in mind, it is possible that for other large banking organizations an appropriately adapted form of long-term debt requirement is needed to preserve options for an FDIC-led resolution of an insured depository institution as part of an MPOE resolution process. For example, if the proceeds of long-term debt issued by a parent holding company are down-streamed to its principal insured depository institution subsidiary in exchange for internal long-term debt of the insured depository institution, such internal debt could be available to absorb losses in connection with an FDIC resolution of the insured depository institution. Alternatively, or in conjunction with, such internal debt funded by parent-level issuance, external long-term debt issued by the insured depository institution could likewise function as a credible form of loss absorbency in an FDIC-led resolution and might therefore appropriately count toward an overall long-term debt requirement. In concept, issuance of long-term debt at the parent holding company level might play an additional role of supporting an SPOE strategy focused on holding company-level resolution, potentially creating an additional resolution option.

The availability of this loss-absorbing resource at the insured depository institution would protect deposits and thereby increase the likelihood that a transfer to a bridge insured depository institution to preserve franchise value would be less costly to the DIF than a payout of insured deposits. Use of a bridge insured depository institution would enhance the FDIC's ability to pursue options that could involve breaking the insured depository institution up for sale to multiple acquirers, and/or spinning off some remaining streamlined operations as a restructured entity with ongoing viability, depending on which strategy is most desirable. Generally speaking, the greater the extent of feasible options available to the FDIC as it undertakes resolution of an insured depository institution, the greater will be the chance that resolution can be conducted in an orderly manner without the need of extraordinary support and increased risk to the DIF based upon a systemic risk exception to the least-cost test.

Thus, to limit the impact of a firm's failure on the DIF and decrease potential risks to financial stability, certain large banking organizations could be required to maintain long-term debt at the insured depository institution that meets certain specified characteristics [11] in order to (i) absorb losses at a large banking organization as it undergoes resolution; (ii) support the viability of restructuring options such as the sale of various subsidiaries, branch networks, or business lines; or (iii) support a public spin-off of the restructured entity upon its emergence from resolution.

For these reasons, the agencies are considering the advantages and disadvantages of requiring large banking organizations that meet some specified categorization threshold to maintain long-term debt capable of absorbing losses in resolution.

Question 1: The agencies invite comment on whether and how a requirement to maintain a minimum amount of long-term debt could enhance a large banking organization's resolvability. How might long-term debt be beneficial for improving optionality when conducting the resolution of a U.S. large banking organization or its insured depository institution? What would be the optimal structure of the long-term debt and what other requirements would be necessary to ensure that it remains available to utilize in resolution? Which entity in a large banking organization's corporate structure would be the ideal issuer of long-term debt externally to the market? What would be the costs of a long-term debt requirement for large banking organizations or their customers? What alternative approaches are available to address possible concerns about the resolvability of large banking organizations or their insured depository institutions?

Question 2: The agencies invite comment on alternative approaches for determining the appropriate scope of application of a potential long-term debt requirement to the population of large banking organizations. In particular, what criteria would be relevant to determine whether a large banking organization should be subject to the requirement? Should all Category II and,

[11] Such characteristics would necessarily include an appropriate form of subordination. As described in the adopting release for the TLAC rule, debt issued by a parent holding company is considered structurally subordinated to debt of the parent's insured depository institution subsidiary. Debt issued by an insured depository institution subsidiary, either externally or internally, would generally need to benefit from contractual or statutory subordination features in order to reliably serve as loss-absorbing capacity in resolution.

Category III firms (including SLHCs, which are not subject to resolution planning requirements) be subject to a long-term debt requirement? Why or why not? What additional factors—for example, the presence of significant non-bank operations, critical operations, critical services outside the bank chain, cross-border operations, or extent of reliance on uninsured deposits—should the agencies consider when determining the scope of application of any long-term debt requirement to large banking organizations? Given the practical and market limitations for selling large insured depository institutions, especially during a crisis, what is the appropriate scope of application for a loss absorbing debt requirement to expand the range of strategies available to the FDIC? How should IDIs that are not part of a group under a BHC be considered?

Question 3: The agencies invite comment on how any new requirements should be applied to the U.S. subsidiaries of foreign banking organizations. Top-tier U.S. intermediate holding company (IHC)[12] *subsidiaries of foreign GSIBs are currently subject to long-term debt requirements. To what extent should those top-tier U.S. holding companies of foreign firms or their insured depository institutions that have a similar risk profile to the domestic large banking organizations that might be subject to any long-term debt requirement considered in this ANPR, be subject to any new requirements in line with those applied to domestic large banking organizations?*

Question 4: The agencies invite comment on the appropriateness of recognizing debt issued by various legal entities within a holding company structure in determining compliance with any long-term debt requirement imposed on the top tier holding company. Specifically, to what extent should the Board consider whether a large banking organization's resolution strategy is an SPOE or MPOE strategy, whether the long-term debt is issued by the parent holding company or the insured depository institution, or other factors in determining the requirement?

The current long-term debt calibration for U.S. GSIBs requires that firms maintain long-term debt at least equal to the greater of (i) 6% of risk-weighted assets, plus a firm-specific surcharge applicable to each GSIB or (ii) 4.5% of total leverage exposure. This calibration is intended to ensure U.S. GSIBs maintain enough loss-absorbing capacity to fully recapitalize material subsidiaries quickly for continuous operation. The current long-term debt requirement for intermediate holding companies of foreign GSIBs is calibrated at the greater of 6% of risk-weighted assets or 2.5% of total leverage exposure.

Question 5: The agencies invite comment on the appropriate calibration of a long-term debt requirement for large banking organizations. Should the agencies establish the same calibration as is currently in effect for intermediate holding companies of foreign GSIBs or establish a different calibration? What are the advantages and disadvantages of applying a calibration designed to require sufficient resources to recapitalize a large banking organization's subsidiaries in the event equity capital is fully depleted, in order to continue operations either under an SPOE or MPOE resolution strategy? How should the agencies weigh the burden of additional requirements against the potential benefit to financial stability? What other factors should the agencies consider to calibrate a long-term debt requirement for large banking organizations or insured depository institutions that would provide sufficient optionality to address material distress or failure in a manner that limits risk to financial stability over time? How should the agencies consider competitive equality in calibrating any long-term debt requirements for large banking organizations relative to existing requirements for GSIBs and top tier IHC holding companies of foreign banking organizations? What data should be considered to support calibration determinations?

Question 6: The agencies invite comment on the potential effect of a long-term debt requirement on large banking organizations in different tiering categories (for example, Category II and Category III) and on the capacity of these firms to issue such debt into the market throughout an economic cycle. What are the potential effects of a long-term debt requirement on these firms' funding model and funding costs, including any associated effect on market discipline and overall firm resiliency? What, if any, are the potential effects of a long-term debt requirement on the cost and availability of credit?

Under the TLAC rule applicable to GSIBs, only debt instruments that meet certain requirements[13] may be included in a GSIB's outstanding external TLAC amount. The general purpose of these requirements, certain of which are discussed below, is to ensure the ability of eligible long-term debt instruments to readily absorb losses in an SPOE resolution. The agencies are evaluating whether certain components of the eligibility requirements that must be satisfied for long-term debt to qualify as ''eligible long-term debt'' under the existing TLAC rule that applies to U.S. GSIBs would be relevant to improve the resolvability of large banking organizations. These components and their applications to GSIBs are listed below:

1. Issuance by the Top-Tier Holding Company

To ensure that a debt instrument can be used to absorb losses incurred anywhere in the banking organization, the GSIB TLAC rule specifies that eligible long-term debt must be issued by the top-tier holding company of a banking organization.[14] Debt externally issued by a subsidiary generally is only available to absorb losses in a resolution of that particular subsidiary.

2. Clean Holding Company Requirements

In addition, the top-tier holding companies of the GSIBs are also subject to specified ''clean holding company'' requirements. These requirements include prohibitions on issuance of short-term debt to external investors and on entry into derivatives and certain other types of financial contracts and arrangements that would create obstacles to an orderly resolution.

The agencies are interested in whether these holding company requirements can or should be adapted to support the resolution of large banking organizations and how to create a layer of gone-concern loss-absorbing capacity that can most effectively be used to absorb losses in various scenarios.

In addition, the agencies are interested in whether any of the eligibility requirements to be treated as ''eligible long-term debt'' under the existing TLAC rule can or should be adapted to support the resolution of large banking organizations.

Question 7: The Board invites comment on the pros and cons of permitting eligible long-term debt issued externally by a large banking organization's principal insured depository institution subsidiary to count toward a requirement at the top-

[12] 12 CFR 252.153(a).

[13] *See* 12 CFR 252.61—Eligible debt security.

[14] In their resolution planning, U.S. GSIBs and U.S. intermediate holding companies of foreign GSIBs determine what portion of those resources are pre-positioned at various material entities, including the insured depository institution, based upon their individual methodologies.

tier holding company. In what situations might requiring issuance at the holding company level be most beneficial? What range of approaches—other than requiring issuance by the top-tier holding company—may be available to ensure that eligible long-term debt will be available to absorb losses incurred at appropriate legal entities within a given large banking organization's corporate group?

Question 8: The agencies invite comment on whether requirements on governance mechanics should be put in place to ensure that entry into resolution will occur at a time when the eligible long-term debt will be available at the insured depository institution and/or the holding company level to absorb losses? Should such requirements include whether the loss absorbing capacity can absorb losses incurred at appropriate legal entities within a given large banking organization's corporate group? To what extent should such mechanics be aligned with internal recovery planning frameworks to coordinate resolution preparation actions with recovery actions?

Question 9: The agencies invite comment on whether subjecting the operations of the top-tier holding company of large banking organizations to ''clean holding company'' limitations similar to the ones imposed on GSIBs would further enhance the resolvability of a large banking organization. Why or why not?

Question 10: Among the other requirements that must be satisfied under the existing GSIB TLAC rule in order for debt issued by the parent company to qualify as eligible long-term debt (for example, relating to ''plain vanilla'' characteristics, minimum remaining maturity, governing law), which requirements would remain essential in order for long-term debt instruments issued by large banking organizations to properly function as a loss-absorbing resource in resolution? What modifications of such requirements, if any, should the agencies consider in the large banking organization context with respect to loss absorbing debt at insured depository institutions and/or holding companies?

Disclosure

Under the TLAC rule applicable to GSIBs, firms are required to provide the LTD debtholders a description of the financial consequences that could occur if the GSIB entered into a resolution proceeding as well as a summary table of the location of the disclosures (*e.g.,* on the GSIB's website, in public financial reports or public regulatory reports). Where it is necessary to bail-in the LTD, the value of the debtholder's note may be significantly or completely depleted.

Question 11: The agencies invite comment on the appropriate form and content of the disclosure large banking organizations should be required to provide to their long-term debt investors with respect to the potential treatment of such debt in resolution. If LTD requirements are imposed on large banking organizations, what, if any, adaptations should be made relative to the disclosure requirements that apply to GSIBs?

Separability

The agencies are also evaluating whether they should, for some or all large banking organizations, establish separability requirements in the recovery or resolution contexts.

When a large banking organization encounters internal or external stresses or ultimately enters resolution the identification of executable ''separability options,'' such as the sale, transfer, or disposal of significant assets, portfolios, legal entities or business lines on a discrete product line or regional basis could provide alternatives to a wholesale acquisition of a large banking organization's operations by a larger institution such as an existing GSIB.

Question 12: Should the agencies impose any separability requirements for recovery or resolution on all large banking organizations, including GSIBs? To what extent would imposing new separability requirements add net benefits against the backdrop of other existing requirements? In what fashion can or should these requirements be harmonized to promote their effectiveness?

By order of the Board of Governors of the Federal Reserve System.

Michele Taylor Fennell,

Deputy Associate Secretary of the Board.

Federal Deposit Insurance Corporation.

By order of the Board of Directors.

Dated at Washington, DC, on October 18, 2022.

James P. Sheesley,

Assistant Executive Secretary.

[FR Doc. 2022–23003 Filed 10–21–22; 8:45 am]

BILLING CODE 6210–01–P

DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 39

[Docket No. FAA–2022–1302; Project Identifier MCAI–2022–00062–E]

RIN 2120–AA64

Airworthiness Directives; GE Aviation Czech s.r.o. (Type Certificate Previously Held by WALTER Engines a.s., Walter a.s., and MOTORLET a.s.) Turboprop Engines

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Notice of proposed rulemaking (NPRM).

SUMMARY: The FAA proposes to adopt a new airworthiness directive (AD) for all GE Aviation Czech s.r.o. (GEAC) H75–100, H75–200, H80, H80–100, H80–200, H85–100, and H85–200 model turboprop engines. This proposed AD was prompted by the manufacturer revising the airworthiness limitations section (ALS) of the existing engine maintenance manual (EMM) to introduce updated coefficients for the calculation of the cyclic life and safe life for the main shaft. This proposed AD would require revising the ALS of the existing EMM and the operator's existing approved maintenance or inspection program, as applicable, to incorporate the updated coefficients and recalculate the cycles accumulated on critical parts. The FAA is proposing this AD to address the unsafe condition on these products.

DATES: The FAA must receive comments on this NPRM by December 8, 2022.

ADDRESSES: You may send comments, using the procedures found in 14 CFR 11.43 and 11.45, by any of the following methods:

- *Federal eRulemaking Portal:* Go to *regulations.gov.* Follow the instructions for submitting comments.
- *Fax:* (202) 493–2251.
- *Mail:* U.S. Department of Transportation, Docket Operations, M–30, West Building Ground Floor, Room W12–140, 1200 New Jersey Avenue SE, Washington, DC 20590.
- *Hand Delivery:* Deliver to Mail address above between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays.

AD Docket: You may examine the AD docket at *regulations.gov* under Docket No. FAA–2022–1302; or in person at Docket Operations between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays. The AD docket contains this NPRM, the mandatory