MEMORANDUM TO: Board of Directors

FROM: Doreen R. Eberley, Director
Division of Risk Management Supervision

SUBJECT: ***Final Rule.*** Changes to applicability thresholds for regulatory capital and liquidity requirements

Recommendation: Staff is presenting for approval of the Federal Deposit Insurance Corporation (FDIC) Board of Directors (FDIC Board) a request to publish the attached interagency final rule that revises the criteria for determining the applicability of regulatory capital and liquidity requirements to large U.S. banking organizations and to the U.S. intermediate holding companies of certain foreign banking organizations. The final rule establishes four risk-based categories for determining the applicability of requirements under the agencies' regulatory capital rule and liquidity coverage ratio (LCR) rule. Under the final rule, such requirements increase in stringency based on measures of size, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. The final rule applies tailored regulatory capital and liquidity requirements to depository institution holding companies and U.S. intermediate holding companies with $100 billion or more in total consolidated assets as well as to certain depository institutions.

Recommendation: FDIC staff is requesting that the FDIC Board approve the final rule and authorize its publication in the *Federal Register* with an effective date of 60 days after publication in the *Federal Register.*

Concur:

Nicholas J. Podsiadly
General Counsel

Discussion:

I. Overview of the Notices of Proposed Rulemaking

On December 21, 2018, the Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (Federal Reserve), and Federal Deposit Insurance Corporation (FDIC) (together, the agencies) published a proposal to revise the criteria for determining the applicability of requirements under the capital rule, LCR rule, and the proposed net stable funding ratio (NSFR) rule for U.S. banking organizations with $100 billion or more in total consolidated assets, based on four risk-based categories (domestic proposal).[1] Using the risk profile of the top-tier U.S. banking organization, Category I would have been based on global systemically important bank (GSIB) scores, whereas Categories II through IV would have been based on size and levels of cross-jurisdictional activity, nonbank assets, off-balance sheet exposure, and weighted short-term wholesale funding (together with size, the risk-based indicators). Capital and liquidity requirements for depository institution subsidiaries, if applicable, would have been based on the risk profile of the top-tier U.S. banking organization.

Subsequently, on May 24, 2019, the agencies published a proposal to revise the criteria for determining the applicability of capital and liquidity requirements with respect to the U.S. operations of foreign banking organizations (foreign bank proposal).[2] This proposal also included certain changes to the domestic proposal.[3] The foreign bank proposal was largely consistent with the domestic proposal, with certain adjustments to reflect the unique structures through which foreign banking organizations operate in the United States. For example, for liquidity, the foreign bank proposal would have applied

[1] 83 FR 66024 (Dec. 21, 2018).

[2] 84 FR 24296 (May 24, 2019).

[3] Specifically, under the foreign bank proposal, the Federal Reserve proposed applying standardized liquidity requirements to a U.S. depository institution holding company that would have been subject to Category IV standards if the depository institution holding company significantly relies on short-term wholesale funding.

LCR requirements to certain foreign banking organizations with combined U.S. assets of $100 billion or more.[4] Additionally, in the foreign bank proposal the Federal Reserve requested comment on whether and how it should approach applying standardized liquidity to U.S. branch and agency networks. The proposals were consistent with considerations and factors set forth under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act),[5] as amended by the Economic Growth Regulatory Relief and Consumer Protection Act (EGRRCPA).[6]

II. General Summary of Comments and Key Revisions

The agencies received 17 public comments on the domestic proposal and 28 public comments on the foreign bank proposal from U.S. and foreign banking organizations, public entities (including a foreign central bank and a U.S. state regulator), public interest groups, private individuals, and other interested parties.

Many commenters supported the proposals as meaningfully tailoring prudential standards. Many commenters, however, expressed the view that the proposed framework remained too stringent. For example, some commenters argued that smaller regional banking organizations should not be subject to certain prudential standards under the proposals and that many Category IV standards should be eliminated. By contrast, other commenters argued that the proposals had tailored standards in a way that would weaken the safety and soundness of large banking organizations and increase risks to U.S. financial stability, and asserted that the agencies had gone beyond the changes required by EGRRCPA.

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[4] Combined U.S. assets means the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization (excluding any company whose assets are held pursuant to section 2(h)(2) of the Bank Holding Company Act, 12 U.S.C. 1841(h)(2), if applicable) and the total assets of each U.S. branch and U.S. agency of the foreign banking organization, as reported by the foreign banking organization on the Capital and Asset Report for Foreign Banking Organizations (FR Y–7Q). Capital requirements, by contrast, would have considered only the assets of the U.S. intermediate holding company of the foreign banking organization.

[5] Pub. L. 111–203, 124 Stat. 1376 (2010), § 165, codified at 12 U.S.C. 5365.

[6] Pub. L. 115–174, 132 Stat. 1296 (2018).

In addition, some commenters expressed the general view that the thresholds set forth in the proposal should be further justified.

In response to the foreign bank proposal, commenters generally argued that the proposal would unfairly increase requirements applicable to foreign banking organizations. These commenters also expressed the general view that certain aspects of the foreign bank proposal were inconsistent with the principle of national treatment and argued that the proposals should defer more broadly to compliance with home country standards applicable to the parent foreign banking organization. In particular, commenters argued that the foreign bank proposal should not determine the applicability of the LCR and proposed NSFR requirements based on the risk profile of the foreign banking organization's combined U.S. operations. These commenters asserted that the final rule should instead be based on the U.S. intermediate holding company. These commenters also generally opposed the possible application of a standardized liquidity requirement to U.S. branches and agencies of foreign banking organizations. By contrast, other commenters criticized the foreign bank proposal for reducing the stringency of standards beyond the changes required by EGRRCPA.

The final rule combines both the domestic and foreign proposals into a single rule and largely adopts the proposals, with certain adjustments in response to the comments, including:

- Application of the LCR based on the activities of the U.S. intermediate holding company rather than its combined U.S. operations – see Section IV of this Board Memo.
- An extension of the transition period for an increase in the stringency of LCR requirements – see Section VI of this Board Memo;

Additionally, in line with the proposed rule, the reduced LCR is finalized with the following reductions:

- The reduced Category III liquidity requirements are set with an 85 percent outflow rate.
- The reduced Category IV liquidity requirements are set with a 70 percent outflow rate.

III. Overview of the Final Rule

The final rule establishes four risk-based categories[7] for determining the regulatory capital and liquidity requirements applicable to large U.S. banking organizations and the U.S. intermediate holding companies of foreign banking organizations, which apply generally based on indicators of size, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. The final rule measures these indicators based on the risk profile of the top-tier U.S. banking organization. Under the final rule, the capital and liquidity requirements that apply to U.S. intermediate holding companies and their depository institution subsidiaries generally align with those applicable to similarly situated U.S. banking organizations.

Table I: Scoping Criteria for Categories of Regulatory Capital and Liquidity Requirements

<table>
<tr><th>Category</th><th>U.S. Banking Organizations†</th><th>Foreign Banking Organizations‡</th></tr>
<tr><td>I</td><td>U.S. GSIBs and their depository institution subsidiaries</td><td>N/A</td></tr>
<tr><td>II</td><td colspan="2">$700 billion or more in total consolidated assets; or $75 billion or more in cross-jurisdictional activity; and do not meet the criteria for Category I standards</td></tr>
<tr><td>III</td><td colspan="2">$250 billion or more in total consolidated assets; or $75 billion or more in weighted short-term wholesale funding, nonbank assets, or off-balance sheet exposure; and do not meet the criteria Category I or II standards</td></tr>
<tr><td>IV</td><td colspan="2">$100 billion or more in total consolidated assets, and do not meet the criteria Category I, II or III standards</td></tr>
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† For U.S. banking organizations, the applicable category of regulatory capital and liquidity requirements is determined at the top-tier banking organization level, and generally applies to any depository institution subsidiary of such holding company for purposes of capital or to subsidiary institutions with $10 billion or more in assets for liquidity requirements.

‡ For foreign banking organizations, the applicable category of regulatory capital and liquidity requirements is determined at the top-tier U.S. intermediate holding company level, and generally applies to any depository institution subsidiary of such holding company for purposes of capital or to subsidiary depository institutions with $10 billion or more in assets for liquidity requirements.

[7] The proposals also sought comment on an alternative approach that would have used a single, comprehensive score based on the GSIB identification methodology, which is currently used to identify U.S. GSIBs. The final rule adopts the proposed indicators-based approach for assigning Category II, III, or IV standards to a banking organization and does not rely on any other risk-based indicators.

IV. Discussion of the Risk-based indicators and Other Key Requirements.

A. Risk-based indicators

To determine the applicability of the Category II, III, or IV standards, the proposals considered a banking organization's level of five risk-based indicators: size, cross-jurisdictional activity, nonbank assets, off-balance sheet exposure, and weighted short-term wholesale funding. For capital standards, the proposals would have used the risk profile of the U.S. top-tier banking organization to measure the risk-based indicators. For liquidity standards, the domestic proposal would have also used the risk profile of the U.S. top-tier banking organization to measure the risk-based indicators, whereas, the foreign bank proposal would have determined the category of liquidity standards applicable to a foreign banking organization with respect to its intermediate holding company based on the risk profile of its combined U.S. operations.

1. Size

The proposals would have tailored the application of capital and liquidity requirements based on the size of a banking organization as measured by total assets. A banking organization's size provides a measure of the extent to which stress at its operations could be disruptive to the U.S. market and present significant risks to U.S. financial stability. The failure of a large banking organization in the U.S. also may give rise to challenges that complicate the resolution process due to the size and diversity of its customer base and the number of counterparties that have exposure to the banking organization. Last, the size indicator is consistent with Section 165 of the Dodd-Frank Act, as amended by EGRRCPA, which establishes thresholds based on total consolidated assets.[8] The final rule adopts this measure as proposed.[9]

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[8] *See generally* 12 U.S.C. 5635 and EGRRCPA § 401.

[9] The size risk-based indicator is unchanged from the proposal. However, the final rule applies liquidity standards with respect to a U.S. intermediate holding company based on the risk profile of the intermediate holding company, rather than the

2. Cross-jurisdictional activity

The proposals would have included a measure of cross-jurisdictional activity to determine the application of more stringent standards under Category II. For U.S. banking organizations, the domestic proposal defined cross-jurisdictional activity as the sum of cross-jurisdictional claims and liabilities. In recognition of the structural differences between foreign and domestic banking organizations, the foreign bank proposal would have adjusted the measurement of cross-jurisdictional activity for foreign banking organizations to exclude intercompany liabilities and collateralized intercompany claims.[10] Specifically, claims on affiliates would be reduced by the value of any financial collateral in a manner consistent with the agencies' capital rule.[11] Under the final rule cross-jurisdictional activity is finalized as proposed and is based on the instructions to the form FR Y-15 and, by reference, to the form FFIEC 009.

3. Nonbank Assets

The proposals would have considered the level of nonbank assets in determining the applicable category of standards for foreign and domestic banking organizations. The amount of a banking organization's activities conducted through nonbank subsidiaries provides an indication of the organization's business and operational complexity.

Under the proposals, nonbank assets would have been measured as the average amount of assets in consolidated nonbank subsidiaries and equity investments in unconsolidated nonbank subsidiaries.[12]

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combined U.S. operations of the foreign banking organization, as discussed in Section IV.E of this note. In fact, for foreign banking organizations, each of the risk-based indicators is applied in the final rule based on the risk profile of the intermediate holding company, rather than the combined U.S. operations of the foreign banking organization.

[10] Specifically, the proposal would have excluded from the cross-jurisdictional activity indicator all intercompany claims of a foreign banking organization secured by financial collateral, in accordance with the capital rule.

[11] *See* 12 CFR 3.37 (OCC); 12 CFR 217.37 (Federal Reserve); 12 CFR 324.37 (FDIC).

[12] For a foreign banking organization, nonbank assets would have been measured as the average amount of assets in consolidated U.S. nonbank subsidiaries and equity investments in unconsolidated U.S. nonbank subsidiaries.

The proposals would have excluded from this measure assets in a national bank, state member bank, and state nonmember bank, as well as assets in other depository institution subsidiaries, including a federal savings association, federal savings bank, or state savings association. The proposals also would have excluded assets of subsidiaries of these depository institutions, as well as assets held in each Edge or Agreement Corporation that is held through a bank subsidiary. The final rule adopts this measure as proposed.

4. Off-Balance Sheet Exposure

The proposals would have included off-balance sheet exposure as a risk-based indicator to complement the measure of size. This indicator provides a measure of the extent to which customers or counterparties may be exposed to a risk of loss or suffer a disruption in the provision of services stemming from off-balance sheet activities. In addition, off-balance sheet exposure can lead to significant future draws on liquidity, particularly in times of stress. Under the proposals, off-balance sheet exposure would have been measured as the difference between total exposure, calculated in accordance with the instructions to the FR Y–15 or equivalent reporting form, and total consolidated assets. The final rule adopts this measure as proposed.

5. Weighted short-term wholesale funding

The proposed weighted short-term wholesale funding indicator would have measured the amount of a banking organization's short-term funding obtained generally from wholesale counterparties. Reliance on short-term, generally uninsured funding from more sophisticated counterparties can make a banking organization more vulnerable to large-scale funding runs. The proposals would have calculated this indicator as the weighted average amount of funding obtained from wholesale counterparties in the same manner as currently reported by holding companies on the FR Y-15 reporting form. The final rule adopts this measure as proposed.

B. Application and calibration of the risk-based indicators

The proposed risk-based indicators would have determined the application of capital and liquidity requirements under Categories II, III, and IV. A high level in a single indicator warrants the application of more stringent standards to mitigate those risks and support the overall purposes of each category because each indicator serves as a proxy for various types of risk.

The proposals employed fixed nominal thresholds, including total asset thresholds of $100 billion, $250 billion, and $700 billion, along with $75 billion thresholds for each of the other risk-based indicators. The $75 billion threshold is based on the degree of concentration this amount represents for each banking organization relative to total consolidated assets. That is, a threshold of $75 billion represents at least 30 percent and as much as 75 percent of total consolidated assets for banking organizations with between $100 billion and $250 billion in total consolidated assets.

The final rule retains the application and calibration of these thresholds as proposed.

C. The risk-based categories

1. Category I

Under the domestic proposal, Category I standards would have applied to U.S. GSIBs. Category I standards included the most stringent standards relative to those imposed under the other categories, to reflect the heightened risks that banking organizations subject to Category I standards pose to U.S. financial stability. The requirements applicable to U.S. GSIBs remained unchanged from existing requirements. The final rule adopts the scoping criteria for Category I as proposed.

2. Category II

The proposals would have assigned Category II standards to banking organizations with $700 billion in total assets or $100 billion or more in total assets and $75 billion or more in cross-jurisdictional activity. Banking organizations that engage in significant cross-jurisdictional activity

present complexities that support the application of more stringent standards relative to those that would apply under Category III. In addition, application of consistent prudential standards across jurisdictions to banking organizations with significant size or cross-jurisdictional activity helps to promote competitive equity among U.S. banking organizations and their foreign peers. The final rule adopts the scoping criteria for Category II as proposed.

3. Category III

Under the proposals, Category III standards would have applied to banking organizations that are not subject to Category I or II standards and that have total assets of $250 billion or more. They also would have applied to banking organizations with $100 billion or more in total assets and $75 billion or more in nonbank assets, weighted short-term wholesale funding, or off-balance-sheet exposure. Category III standards reflect the heightened risk profiles of these banking organizations relative to smaller and less complex banking organizations. The final rule adopts the scoping criteria for Category III as proposed.

4. Category IV

Under the proposals, Category IV standards would have applied to top-tier U.S. banking organizations with $100 billion or more in total assets that do not meet the thresholds for any other category. The final rule includes Category IV because banking organizations subject to this category of standards generally have greater scale and operational and managerial complexity relative to smaller banking organizations. Category IV standards are being finalized as proposed.

D. Treatment of Depository Institution Subsidiaries

The proposals generally would have applied the same category of standards to top-tier U.S. banking organizations and their depository institution subsidiaries. Standardized liquidity requirements would apply only to depository institutions with $10 billion or more in total assets that are subsidiaries

of banking organizations subject to Category I, II, or III standards. The treatment of depository institution subsidiaries is being finalized as proposed.

E. Specific aspects of the foreign bank proposal

1. Liquidity standards based on combined U.S. operations

The foreign bank proposal would have determined the category of liquidity standards applicable to a foreign banking organization with respect to its U.S. intermediate holding company based on the risk profile of its combined U.S. operations.[13] In response to specific commenters' concerns, the final rule determines the applicability of liquidity standards with respect to a U.S. intermediate holding company based on the risk profile of the intermediate holding company, rather than the combined U.S. operations of the foreign banking organization. Specifically, the final rule applies full LCR or reduced LCR requirements to a U.S. intermediate holding company based on a risk profile measured by the five risk-based indicators. The agencies believe this approach helps to enhance the focus and efficiency of standardized liquidity requirements relative to the proposal, because liquidity requirements that apply to a U.S. intermediate holding company will be based on the U.S. intermediate holding company's own risk profile. As discussed in the foreign bank proposal, the agencies may develop and propose a standardized liquidity requirement for the U.S. branches and agencies of a foreign banking organization.[14]

[13] Combined U.S. operations consist of the foreign banking organizations U.S. subsidiaries, including any U.S. intermediate holding company, and U.S. branch and agency operations.

[14] As part of that process, the agencies intend to further consider how to most appropriately address concerns regarding the liquidity risk profiles of foreign banking organizations' U.S. operations, including through the use of existing supervisory processes, other relevant regulations and international coordination, as well as developments in the U.S. activities and liquidity risk management practices of foreign banking organizations.

2. The treatment of inter-affiliate transactions

Except for cross-jurisdictional activity, which would have excluded liabilities and certain collateralized claims with affiliates, the proposed risk-based indicators would have included transactions between a foreign banking organization's combined U.S. operations and non-U.S. affiliates. Similarly, except for cross-jurisdictional activity, a U.S. intermediate holding company would have included transactions with affiliates outside the U.S. intermediate holding company when reporting its risk-based indicators. For purposes of the risk-based indicators, the final rule adopts the treatment of inter-affiliate transactions as proposed.

V. Capital and Liquidity Requirements for Large U.S. and Foreign Banking Organizations

A. Capital requirements that apply under each category

1. Category I capital requirements

The domestic proposal would not have changed the capital requirements applicable to U.S. GSIBs and their depository institution subsidiaries. Therefore, such banking organizations would have remained subject to the most stringent capital requirements.

The final rule maintains the capital requirements applicable to U.S. GSIBs and their depository institution subsidiaries. U.S. GSIBs and their depository institution subsidiaries must calculate risk-based capital ratios using both the advanced approaches and the standardized approach and are subject to the U.S. leverage ratio. Such banking organizations are also subject to the requirement to recognize elements of accumulated other comprehensive income (AOCI) in regulatory capital; the requirement to expand the capital conservation buffer by the amount of the countercyclical capital buffer, if applicable; and enhanced supplementary leverage ratio standards. In addition, U.S. GSIB holding companies are subject to the GSIB surcharge.

2. Category II capital requirements

The proposals generally would have maintained the capital requirements applicable to banking organizations of a very large size or that engage in significant cross-jurisdictional activity under Category II. Similar to Category I, capital requirements under Category II included the requirements to recognize elements of AOCI in regulatory capital and to expand the capital conservation buffer by the amount of the countercyclical capital buffer, if applicable. Banking organizations subject to Category II capital requirements also would have been required to comply with the advanced approaches capital requirements, generally applicable risk-based capital requirements, and the supplementary leverage ratio.[15] As under prior requirements, U.S. intermediate holding companies subject to Category II capital requirements would not have been required to calculate risk-based capital requirements using the advanced approaches under the capital rule, and would instead have used the generally applicable capital requirements for calculating risk-weighted assets due to the compliance burden of applying such requirements under both U.S. and home-country capital standards.[16] In summary, the Category II capital requirements are being finalized as proposed.

3. Category III capital requirements

Under the proposals, Category III capital requirements would have included the generally applicable risk-based capital requirements, supplementary leverage ratio, and the countercyclical capital buffer. The advanced approaches risk-based capital requirements would not have applied to banking

[15] With respect to the agencies' regulatory capital requirements, the BCBS recently completed revisions to its capital standards, including the methodologies for credit risk, operational risk, and market risk. The agencies are considering how to most appropriately implement these standards in the United States, including potentially replacing the advanced approaches with risk-based capital requirements based on the Basel standardized approaches for credit risk and operational risk. Any such changes to applicable risk-based capital requirements would be subject to notice and comment through a future rulemaking.

[16] After adoption of Regulation YY, and its general exemption for U.S. intermediate holding companies from calculating risk-weighted assets under the advanced approaches, depository institution subsidiaries of U.S. intermediate holding companies were similarly exempted by order from calculating advanced approaches risk-weighted assets.

organizations subject to Category III requirements, and banking organizations subject to this category would have been permitted to make an election to opt out of the requirement to recognize elements of AOCI in regulatory capital. The proposals sought comment on various elements of Category III capital requirements, including the advantages and disadvantages of retaining the supplementary leverage ratio and countercyclical capital buffer, and the optional recognition of AOCI in regulatory capital.

U.S. intermediate holding companies and their depository institution subsidiaries would be subject to the same capital requirements as U.S. banking organizations under Category III. Banking organizations subject to Category III requirements would not be required to apply advanced approaches risk-based capital requirements. The models for applying these requirements are costly to build and maintain, and the removal of these requirements is not expected to materially change the amount of capital that these banking organizations would be required to maintain.

In addition, the proposal would have removed the mandatory application of the requirement to recognize AOCI in regulatory capital for certain banking organizations subject to Category III capital requirements. Such banking organizations would have been provided an opportunity to make a one-time election to opt out of such requirement in the first regulatory report filed after the effective date for the final rule. A banking organization that is currently required to recognize AOCI in regulatory capital and that does not make such an AOCI opt-out election would continue to include all applicable AOCI components in regulatory capital. Category III standards are being finalized as proposed.

4. Category IV capital requirements

Under the proposals, Category IV capital requirements would have included the generally applicable risk-based capital requirements and the U.S. leverage ratio. The proposals would not have applied the countercyclical capital buffer and the supplementary leverage ratio to Category IV banking organizations. In this manner, the requirements applicable to banking organizations subject to

Category IV would maintain the risk-sensitivity of the current capital regime and resiliency of these banking organizations' capital positions, and would recognize that these banking organizations, while large, have lower indicators of risk relative to their larger peers. As a result, and as noted above, banking organizations subject to Category IV capital requirements would generally have the same capital requirements under the risk-based capital framework as banking organizations with less than $100 billion in total consolidated assets.

The agencies did not receive any comments specific to the capital requirements that would apply to banking organizations subject to Category IV standards. These standards are being finalized as proposed.

B. Liquidity requirements applicable to each category

1. Category I liquidity requirements

As proposed, U.S. GSIBs would have been subject to Category I standards because they pose the highest risks to U.S. financial stability. The domestic proposal did not include changes in the liquidity requirements currently applicable to U.S. GSIBs. Under the domestic proposal, U.S. GSIBs would also have been included in the scope of application of the full set of requirements described in the proposed NSFR rule. In addition, consistent with current requirements, a U.S. GSIB's depository institution subsidiary with $10 billion or more in total consolidated assets would have remained subject to the full LCR requirements. The liquidity requirements for firms in Category I are being finalized as proposed.[17]

2. Category II liquidity requirements

The proposals would have applied full LCR requirements to banking organizations subject to Category II standards and would also have applied full LCR requirements to their depository institution

[17] Comments regarding the NSFR proposal will be addressed in the context of any final rule to adopt a net stable funding ratio requirement for large U.S. banking organizations and U.S. intermediate holding companies.

subsidiaries with total consolidated assets of $10 billion or more. Under the proposals, banking organizations subject to Category II standards would also have been included in the scope of application of the full requirements of the proposed NSFR rule. While these banking organizations generally do not present the same degree of systemic risk as U.S. GSIBs, the very large size or the cross-jurisdictional activity of these organizations present risks that make it appropriate to apply more stringent liquidity standards. The Category II liquidity requirements are being finalized as proposed.

3. Category III liquidity requirements

Under the proposals, Category III liquidity requirements would have reflected the elevated risk profile of banking organizations subject to this category relative to smaller and less complex banking organizations. A banking organization subject to Category III with weighted short-term wholesale funding of $75 billion or more would have been subject to the full set of LCR and proposed NSFR requirements applicable under Categories I and II. A banking organization subject to Category III with less than $75 billion in weighted short-term wholesale funding would have been subject to reduced LCR and proposed NSFR requirements.[18] The level of the LCR and proposed NSFR requirements applicable to a depository institution subsidiary with total consolidated assets of $10 billion or more of a banking organization subject to Category III standards would have been the same as the level that would apply to the parent banking organization.[19]

A banking organization subject to the reduced LCR requirement would have been required to hold a lower minimum amount of high-quality liquid assets (HQLA) than under the full LCR. All other

[18] A range of 70 to 85 percent was proposed.

[19] For example, a depository institution subsidiary with $10 billion in total consolidated assets of a banking organization subject to the reduced LCR requirements under Category III standards would also be subject to the reduced LCR requirements. In the case of a depository institution that is not a consolidated subsidiary of a banking organization that would have been subject to Category I, II, or III standards, the applicable category of standards would have depended on the risk-based indicators of the depository institution. For example, if the depository institution meets the criteria for Category III standards but has weighted short-term wholesale funding of less than $75 billion, the depository institution would have been subject to the proposed reduced LCR requirements.

requirements under the LCR rule would have generally remained the same. For example, these banking organizations would have been required to calculate an applicable LCR on each business day, include the maturity mismatch add-on in the LCR calculation and take into account the amount of subsidiary's HQLA that is automatically includable in the top-tier company's HQLA amount up to the reduced amount of the subsidiary's outflows. The Category III liquidity requirements are being finalized as proposed, with an 85 percent outflow rate for Category III banking organization with less than $75 billion of weighted short-term wholesale funding.

4. Category IV liquidity requirements

The foreign bank proposal would have required certain banking organizations that meet the criteria for Category IV and that have weighted short-term wholesale funding of $50 billion or more to comply with a reduced LCR requirement and a monthly, rather than daily, calculation requirement. The proposals would not have applied Category IV liquidity requirements to standalone depository institutions or to depository institution holding companies or foreign banking organizations with less than $50 billion in weighted short-term wholesale funding, or their subsidiary depository institutions.

The application of LCR requirements is appropriate for Category IV banking organizations with significant reliance on short-term wholesale funding, albeit at a reduced level given their lower potential systemic impact. In the final rule, the LCR is calibrated at a level equivalent to 70 percent of the minimum level required under the full LCR. The final rule retains the maturity mismatch requirement and the proposed limitation on the amount of subsidiary's HQLA that is automatically includable in the top-tier banking organization's HQLA amount, equal to an amount up to the reduced amount of the subsidiary's net outflows. The Category IV liquidity requirements are being finalized as proposed.[20]

[20] Additionally, the final rule rescinds the Federal Reserve's modified LCR requirements.

5. Timing of LCR Calculations and Public Disclosure Requirements

The proposal would have required banking organizations subject to Category I, Category II, or Category III standards to calculate an LCR on each business day. Banking organizations subject to Category IV standards with $50 billion or more in weighted short-term wholesale funding would have been required to calculate a monthly LCR. The final rule adopts these requirements as proposed.

VI. Transitions

Under the proposals, standards would have applied based on the average levels over the preceding four calendar quarters, and a banking organization could have transitioned between categories at any quarter-end following a change in one or more of these average amounts. Consistent with the previous LCR rule, changes in LCR requirements that resulted from a change in category generally would have taken effect on the first day of the second quarter. The proposals would also have maintained the transition period for a banking organization to commence calculating the LCR each business day one year after becoming subject to an applicable category. In response to comments, the final rule extends the transition period for an increase in the stringency of LCR requirements. Under the final rule, a banking organization must meet the increased requirements from the first day of the third quarter following the date it becomes subject to a revised category. For a banking organization that becomes subject to Category I, II or III, the final rule retains the one-year transition period for the banking organization to begin calculating the LCR each business day. The final rule also eliminates from the LCR rule the provision that a banking organization remains subject to the rule until its primary federal supervisor determined that application of the rule would not be appropriate.

Conclusion: FDIC staff is requesting that the FDIC Board approve the final rule and authorize its publication in the *Federal Register* with an effective date of 60 days after publication in the *Federal Register*.

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