July 27, 2023

MEMORANDUM TO: Board of Directors

FROM: Doreen R. Eberley, Director

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SUBJECT: Regulatory Capital Rule: Amendments Applicable to Banking Organizations subject to Category I, II, III or IV standards, and to Banking Organizations with Significant Trading Activity

SUMMARY: Staff presents for the approval of the Federal Deposit Insurance Corporation (FDIC) Board of Directors (FDIC Board) a request to publish the attached interagency notice of proposed rulemaking (proposal or NPR) to revise the regulatory capital rule applicable to large banking organizations and applicable in part to other banking organizations with significant trading activity. If approved, this NPR would be issued jointly by the FDIC, the Office of the Comptroller of the Currency (OCC), and the Board of Governors of the Federal Reserve System (FRB) (collectively, the agencies). The proposal would replace current requirements that include the use of banking organizations' internal models for credit risk and operational risk with standardized approaches and replace the current market risk and credit valuation adjustment risk requirements with revised approaches. This new proposed framework for measuring risk-weighted assets, referred to as the expanded risk-based approach, would apply to banking organizations with $100 billion or more in total assets (large banking organizations). The proposal also introduces minimum haircut floor requirements applicable to certain securities financing transactions. In addition to applying to large banking organizations, the revised market risk requirements would also apply to banking organizations with significant trading activity. Large banking organizations' minimum risk-based capital requirements would be the higher of

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risk-weighted assets as measured under the expanded risk-based approach or the generally applicable risk-based rule (including the revised market risk rule, as applicable). The proposal would also require banking organizations subject to Category III and IV standards to calculate their regulatory capital in the same manner as banking organizations subject to Category I and II standards through the inclusion of accumulated other comprehensive income in regulatory capital, more stringent regulatory capital deductions, and stricter requirements for minority interest. Further, the proposal would apply the supplementary leverage ratio and the countercyclical capital buffer to banking organizations subject to Category IV standards, bringing further alignment of capital requirements across large banking organizations. In addition, the proposal would revise certain existing qualitative disclosure requirements and introduce new qualitative disclosure requirements related to the proposal. Finally, the proposal would make certain technical amendments and clarifications to certain provisions of the capital rule. The proposal would include a three-year transition period beginning July 1, 2025. The revisions set forth in the proposal would strengthen the calculation of risk-based capital requirements to better reflect the risks of these banking organizations' exposures, reduce the complexity of the framework, enhance the consistency of requirements across these banking organizations, and facilitate more effective supervisory and market assessments of capital adequacy. The proposed revisions would be generally consistent with recent changes to international capital standards issued by the Basel Committee on Banking Supervision (Basel Committee). The proposal would not amend the capital requirements applicable to smaller, less complex banking organizations.

Recommendation: Staff is requesting that the FDIC Board approve the interagency NPR and authorize its publication in the *Federal Register* with a public comment period that closes on November 30, 2023.

Discussion:

I. Background

Following the 2007-09 financial crisis, the agencies adopted a revised capital rule (2013 capital rule) that improved the effectiveness of the regulatory capital framework and increased the quantity and quality of regulatory capital banking organizations must maintain.[1] The 2013 capital rule was broadly consistent with an initial set of reforms published by the Basel Committee following the financial crisis.[2]

The proposal would build on these initial reforms by making additional changes to the capital rule that are informed by experience since the crisis and generally consistent with international capital standards issued by the Basel Committee, commonly known as the Basel III reforms.[3] Where appropriate, the proposal differs from the Basel III reforms, for example, to

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[1] The Board and the OCC issued a joint final rule on October 11, 2013 (78 FR 62018) and the FDIC issued a substantially identical interim final rule on September 10, 2013 (78 FR 55340). In April 2014, the FDIC adopted the interim final rule as a final rule with no substantive changes. 79 FR 20754 (April 14, 2014).

[2] The Basel Committee is a committee comprised of central banks and banking supervisory authorities, which was established by the central bank governors of the G-10 countries in 1975. It is the primary global standard setter for the prudential regulation of banking organizations.

[3] On December 7, 2017, the Basel Committee finalized revisions to the Basel III post-crisis reform framework; these revisions are available at https://www.bis.org/bcbs/publ/d424.htm. The Basel committee published revisions to the securitization framework in 2014 (https://www.bis.org/publ/bcbs283.htm), 2016 (https://www.bis.org/bcbs/publ/d374.htm), 2018 (https://www.bis.org/bcbs/publ/d442.htm), and 2020 (https://www.bis.org/bcbs/publ/d511.htm). On January 14, 2019, the Basel Committee amended the minimum capital requirements for market risk; these revisions are available at https://www.bis.org/bcbs/publ/d457.htm. On July 8, 2020, the Basel Committee revised the credit valuation adjustment risk framework; these revisions are available at https://www.bis.org/bcbs/publ/d507.htm.

reflect specific characteristics of U.S. markets, requirements under U.S. generally accepted accounting principles (GAAP), practices of U.S. banking organizations, U.S. legal requirements, and policy objectives.

The proposal would strengthen risk-based capital requirements for large banking organizations and their subsidiary depository institutions[4] by improving their comprehensiveness and risk sensitivity. These proposed revisions, including removal of certain internal models, would increase capital requirements in the aggregate, in particular for those banking organizations with heightened risk profiles. Increased capital requirements can produce both economic costs and benefits. The agencies assessed the likely effect of the proposal on economic activity and resilience and expect the benefits of strengthening capital requirements for large banking organizations to outweigh the costs.

Historical experience has demonstrated the impact individual banking organizations can have on the stability of the U.S. banking system, in particular banking organizations that would have been subject to the proposal. Large banking organizations that experience an increase in their capital requirements resulting from the proposal would be expected to be able to absorb losses with reduced disruption to financial intermediation in the U.S. economy. Enhanced resilience of the banking sector supports more stable lending through the economic cycle and diminishes the likelihood of financial crises and their associated costs.

[4] The proposal would also apply to depository institutions with total assets of $100 billion or more that are not consolidated subsidiaries of depository institution holding companies, and to depository institutions with total assets of $100 billion or more that are subsidiaries of depository institution holding companies that are not assigned a category under the capital rule.

II. Overview of the Proposal

All banking organizations are subject to generally applicable risk-based capital requirements. Certain large banking organizations are subject to an additional set of risk-based capital requirements found in subpart E of the capital rule. Subpart E's existing requirements are known as the advanced approaches framework, which currently applies to Category I[5] and II[6] banking organizations. The proposal would substantially revise subpart E by replacing the advanced approaches framework with the expanded risk-based approach for calculating risk weighted assets for credit[7] and operational risks, and would extend subpart E's scope by applying it to Category I, II, III,[8] and IV[9] banking organizations, which includes all banking organizations with at least $100 billion in total assets. The proposed replacement of the advanced approaches framework with the expanded risk-based approach would remove the use of banking organizations' internal models to set capital requirements for credit and operational risks, and in their place apply a simpler and more consistent standardized framework.

Previously, the agencies determined that the advanced approaches requirements should not apply to banking organizations subject to Category III and IV standards, as the agencies considered such requirements to be overly complex and burdensome relative to the safety and soundness benefits they would provide for these banking organizations. The expanded risk-based approach generally is based on standardized requirements, which would be less complex

[5] Category I banking organizations are global systemically important banking organizations.
[6] Category II banking organizations have $700 billion or more in total assets, or have at least $100 billion in total assets and $75 billion in total cross-jurisdictional activity.
[7] The reference to credit risk framework in this memorandum includes securitization and equity exposures.
[8] Category III banking organizations have $250 billion or more in total assets, or have at least $100 billion in total assets and $75 billion in total nonbank assets, off-balance sheet exposure, or weighted short-term wholesale funding.
[9] Category IV banking organizations have $100 billion or more in total assets.

and costly. In addition, recent events demonstrate the impact banking organizations subject to Category III or IV capital standards can have on financial stability. While the recent failure of banking organizations subject to Category IV capital standards may be attributed to a variety of factors, the effect of these failures on financial stability supports further alignment of the regulatory capital framework across large banking organizations.

Under the current risk-based capital requirements, banking organizations with significant trading activity are subject to additional capital requirements for market risk, found in subpart F of the capital rule. Subpart F currently applies to banking organizations whose aggregate trading assets and liabilities equal or exceed $1 billion or represent 10 percent or more of total assets. The proposal would make substantial revisions to the market risk requirements of subpart F, incorporate requirements for credit valuation adjustment (CVA) risk in subpart F, and apply subpart F to all Category I, II, III, and IV banking organizations. Under the proposal, the market risk requirements of subpart F would continue to apply to any other banking organization that equal or exceed the 10 percent trading assets and liabilities threshold, and the trading assets and liabilities dollar threshold would be raised from $1 billion to $5 billion. In subpart F, the proposal would retain banking organizations' ability to use internal models, subject to enhanced performance requirements and a new "output floor" to limit a banking organization's ability to use internal models to reduce its overall capital requirement. The proposal would also adopt new standardized approaches for market risk and CVA risk that better reflect the risks of banking organizations' exposures.

Large banking organizations would calculate and be required to maintain regulatory capital under the expanded risk-based approach, which would be the sum of the proposed standardized credit and operational risk capital requirements of subpart E, as well as the proposed revised market risk and CVA capital requirements of subpart F. In addition, for the purposes of calculating regulatory capital, banking organizations subject to Category III and IV standards would be subject to the same regulatory capital treatment of accumulated other comprehensive income (AOCI), capital deductions, and rules for minority interest as banking organizations subject to Category I and II standards. This would provide a single approach for the largest and most complex firms and ensure that the reported regulatory capital ratios of these banking organizations better reflect their capacity to absorb losses, including by taking into account in a timely manner unrealized losses or gains on securities positions reflected in AOCI in regulatory capital.

The proposal would ensure that large banking organizations would not have lower capital requirements than smaller, less complex firm by maintaining the current capital rule's dual risk-based capital structure. Under this proposed structure, a large banking organization would be required to calculate its risk-based capital ratios and maintain regulatory capital under both the expanded risk-based approach and the current, generally applicable risk-based rule (including market risk, as applicable), and use the lower of the two ratios to satisfy its minimum capital requirements. All applicable capital buffer requirements would apply regardless of whether the expanded risk-based approach or the existing generally applicable risk-based rule produces the more binding ratio. In addition, consistent with the treatment of banking organizations subject to Category I, II, and III standards, the proposal would apply the supplementary leverage ratio and the countercyclical capital buffer to banking organizations subject to Category IV standards.

Finally, the proposal would also introduce disclosure requirements that aim to facilitate market participants' understanding of banking organization's financial condition and risk management practices, and align regulatory reporting requirements with the proposal's other changes. The proposal also would make certain technical amendments and clarifications to certain provisions of the capital rule.

III. New Standardized Credit Risk Requirements

a. Credit Risk

The proposal would revise subpart E by replacing the use of internal models to set regulatory capital requirements for credit risk with a new expanded risk-based approach for credit risk. Elements of the expanded risk-based approach for credit risk would apply the same treatment for certain exposure categories as those under the current generally applicable risk-based rule. The proposed expanded risk-based approach for credit risk would retain many of the same definitions of the generally applicable risk-based rule including, among others, a sovereign, a sovereign exposure, certain supranational entities, a multilateral development bank, a public sector entity (PSE), a government-sponsored enterprise (GSE), other assets, and a commitment. Some elements of the proposed expanded risk-based approach for credit risk would apply the same risk-weight treatment provided in the generally applicable risk-based rule for on-balance sheet exposures, including exposures to sovereigns, certain supranational entities and multilateral development banks, GSEs in the form of senior debt and guaranteed exposures, Federal Home Loan Bank and Federal Agricultural Mortgage Corporation equity exposures, PSEs, and other assets. The proposal would also apply the same risk-weight treatment provided in the generally applicable risk-based rule to the following real estate exposures: pre-sold construction loans, statutory multifamily mortgages, and high-volatility commercial real estate exposures.

The expanded risk-based approach would result in more transparent credit risk capital requirements across institutions as compared to the advanced approaches' internal model-based approach, thereby facilitating comparisons of capital adequacy across banking organizations.

Relative to the current generally applicable risk-based rule, the proposal is more risk-sensitive as it includes additional criteria and metrics that enable the differentiation of credit risk within exposure categories and allows for the application of a broader range of risk weights. Specifically, the proposal would introduce the expanded risk-based approach for exposures to depository institutions, foreign banks, and credit unions; subordinated debt (including those of certain GSEs); real estate; retail; and corporate exposures.

The proposal would also increase risk capture for certain off-balance sheet exposures through a new exposure methodology for commitments without pre-set limits and would modify the credit conversion factors applicable to commitments. Additionally, the proposal would introduce new definitions for defaulted exposure and defaulted real estate exposure. The proposal would apply the standardized approach for counterparty credit risk to banking organizations subject to Category III and IV standards.

b. Equity Exposures

Under the proposal, publicly traded equity exposures would generally be subject to the proposed market risk framework, unless there are restrictions on the tradability of such exposures. Additionally, the proposed equity framework would include equity exposures to investment funds unless those exposures are subject to the proposed market risk framework. As the proposed equity framework would primarily cover illiquid or infrequently traded equity positions, the proposal would eliminate the model-based equity risk framework of the advanced approaches and revise the non-models based equity framework in subpart E. The proposed non-models based equity framework would be substantially similar to the equity framework in the generally applicable risk-based rule with certain exceptions.

Specifically, the proposal would: (1) eliminate the 100 percent risk weight threshold category under the simple risk-weight approach for non-significant equity exposures and apply a 250 percent risk weight for publicly traded equity exposures and a 400 percent risk weight for non-publicly traded equity exposures; (2) eliminate the effective and ineffective hedge pair treatment under the simple risk-weight approach; (3) use a 40 percent conversion factor for conditional commitments to acquire an equity exposure; and (4) increase the risk weight applicable to equity exposures to investment firms with greater than immaterial leverage that the primary federal supervisor has determined do not qualify as a traditional securitization from 600 percent to 1,250 percent. Additionally, the proposal would enhance the risk-sensitivity of the capital rule's look-through approaches for equity exposures to investment funds. Equity exposures to community development investments and small business investment companies would receive a 100 percent risk weight.

c. Securitizations

While the proposed securitization framework would draw on many features of the existing framework in subpart E of the capital rule, the proposal would replace the existing supervisory formula approach in subpart E with the securitization standardized approach (SEC-SA). The SEC-SA is a modified version of the standardized supervisory formula approach (SSFA) found in subpart D of the capital rule. Compared to the SSFA, the SEC-SA includes a higher p-factor, a lower risk-weight floor for securitization exposures that are not resecuritization exposures, and a higher risk-weight floor for resecuritization exposures. The proposed securitization framework also includes the following changes from the existing framework: (1) additional operational requirements for synthetic securitizations; (2) a modified treatment for resecuritizations that meet the operational requirements; (3) a prohibition on using the securitization framework for nth-to-default credit derivatives; (4) a new treatment for derivative contracts that do not provide credit enhancement; (5) a modified treatment for overlapping exposures; (6) a new look through approach to cap the maximum capital requirements for certain senior securitization exposures and adjustments to the credit risk mitigation section of the securitization framework that would clarify which exposures are eligible for the look-through approach; (7) a modification to the treatment for credit-enhancing interest only strips; and (8) a new framework for non-performing loan securitizations.

d. Credit Risk Mitigation

Consistent with the current rule, the proposal would permit banking organizations to recognize certain types of credit risk mitigants, such as guarantees, credit derivatives, and collateral, for risk-based capital purposes provided the credit risk mitigants satisfy the qualification standards under the rule. The proposal would replace certain methodologies for recognizing the risk-reducing benefits of financial collateral and eligible guarantees and credit derivatives—namely, the internal models methodology, simple value-at-risk (VaR) approach, probability-of-default substitution approach, loss-given-default adjustment approach, and double default treatment would be replaced with the standardized approaches described below. For all collateralized transactions, the proposal would retain the simple approach from subpart D with one modification: the corporate issuer of any financial collateral in the form of a corporate debt security must have an outstanding publicly traded security or the corporate issuer must be controlled by a company that has an outstanding publicly traded security in order to be recognized. For eligible margin loans and repo-style transactions, banking organizations would be permitted to use a revised collateral haircut approach that increases netting and diversification benefits within netting sets, subject to more risk-sensitive market price volatility haircuts.

Finally, the proposal would introduce minimum haircut floors for certain eligible margin loan and repo-style transactions with certain counterparties that banking organizations must meet in order to recognize any risk-mitigation benefits of collateral.

In connection with removal of the internal models methodology, the proposal would make corresponding revisions to reflect this change in the definition of "netting set." Specifically, the proposal would define a netting set as a group of single-product transactions with a single counterparty that are subject to a qualifying master netting agreement and that consist only of derivative contracts, repo-style transactions, or eligible margin loans. Compared to the current rule, the proposal would exclude cross-product netting sets from the definition of a netting set, which reflects the fact that none of the approaches under the revised framework would recognize cross-product netting. Consistent with the current rule, for derivative contracts, the proposed definition of netting set would also include a single derivative contract between a banking organization and a single counterparty.

IV. New Operational Risk Requirements

Under the current capital rule, banking organizations subject to Category I or II capital standards are required to calculate risk-weighted assets for operational risk using the advanced measurement approaches (AMA), which are based on a banking organization's internal models. The proposal would remove the AMA and introduce a standardized approach for operational risk applicable to all large banking organizations.

The operational risk capital requirements under the standardized approach would be a function of a banking organization's business indicator component and internal loss multiplier. The business indicator component would provide a measure of the operational risk exposure of the banking organization, and would be calculated based on its business indicator multiplied by scaling factors that increase with the business indicator. The business indicator would serve as a proxy for a banking organization's business volume and would be based on inputs compiled from a banking organization's financial statements to capture its lending and investment activities, fee and commission-based activities as well as other banking activities, trading activities, and other activities that are associated with the banking organization's assets and liabilities. The internal loss multiplier would be based on the ratio of a banking organization's historical operational losses to its business indicator component and would increase the operational risk capital requirement as historical operational losses increase. To ensure the robustness of the operational risk capital requirement, the proposal would require that the internal loss multiplier be no less than one.

A banking organization's operational risk capital requirement would be equal to its business indicator component multiplied by its internal loss multiplier. Similar to the current capital rule, the risk-weighted asset amount for operational risk would be equal to 12.5 times the operational risk capital requirement.

V. Revised Market Risk Requirements

The proposal would improve the risk-sensitivity and calibration of market risk capital requirements relative to the current rule. Notably, the proposal would replace the VaR-based measure of market risk in the capital rule with an expected shortfall-based measure, which better captures the potential losses in market risk covered positions. The proposal would also replace the fixed ten-business-day liquidity horizon in the current capital rule with liquidity horizons that vary based on the underlying risk factors to adequately capture the market risk of less liquid positions. In addition, the proposal would also improve the transparency of market risk capital requirements through enhanced disclosures.

The proposal would apply the revised market risk framework to all Category I, II, III, and IV banking organizations, and to other banking organizations that have significant trading activity. The current rule applies to any banking organization whose aggregate trading assets and liabilities equal or exceed $1 billion or represent 10 percent or more of total assets. The proposal would retain the percentage threshold and raise the dollar threshold to $5 billion in order to reflect the significant growth in capital markets since adoption of the 1996 rule. In addition, the dollar threshold calculation would provide a more reliable and stable measure of banking organizations' trading activity by introducing a four-quarter average requirement.

Furthermore, the proposal would introduce a standardized methodology for calculating risk-weighted assets for market risk (standardized measure for market risk) and a new models-based methodology to replace the framework in subpart F of the capital rule. Relative to the current framework, the proposal would provide for enhanced risk-sensitivity by introducing the concept of a trading desk and restricting application of the proposed internal models approach (IMA) under the models-based measure for market risk to the trading desk level. Specifically, under the proposal, the standardized measure for market risk would be the default methodology for calculating market risk capital requirements. A banking organization would be required to obtain prior written approval from its primary federal supervisor to use the internal models approach for a trading desk to become a model-eligible trading desk. Upon obtaining such approval, the banking organization would be allowed to calculate its market risk capital requirements under the models-based measure for market risk for the model-eligible trading desk. Furthermore, if after receiving approval from the primary federal supervisor to use the IMA, a trading desk fails to satisfy either the proposed desk-level backtesting requirements or the proposed desk-level profit and loss attribution testing requirements, the proposal would require the banking organization to use the standardized approach for market risk to calculate market risk capital requirements for the trading desk. In this way, the proposal would limit application of the internal models approach to only those trading desks for which the internal models are sufficiently conservative and accurate for purposes of calculating market risk capital requirements for the trading desk.

The proposal would require all banking organizations subject to subpart F of the capital rule to calculate market risk capital requirements under the standardized measure for market risk. The proposed standardized measure for market risk would consist of three main components: (1) a sensitivities-based method capital requirement that would capture non-default market risk associated with certain risk factors; (2) a standardized default risk capital requirement that would capture losses on credit and equity positions in the event of issuer default; and (3) a residual risk capital requirement (a residual risk add-on) that would address in a simple, conservative manner any other known risks that are not already captured under by the first two components, such as gap risk, correlation risk, and behavioral risks. The proposed standardized measure for market risk would also include three additional components that would apply in limited instances to specific positions: (1) a fallback capital requirement for instances where a banking organization is unable to calculate market risk capital requirements under the sensitivities-based method or the standardized default risk capital requirement; (2) a capital add-on for re-designations for instances where a banking organization re-classifies an instrument after initial designation as being subject either to the market risk capital requirements under subpart F or to the capital requirements under either subpart D or E of the capital rule, respectively; and (3) any additional capital requirement established by the primary federal supervisor.

VI. Adjusted CVA Requirements

Consistent with the current capital rule, the proposal would require banking organizations subject to the CVA risk-based requirements to reflect in risk-weighted assets the potential losses resulting from increases of CVA for all OTC derivative contract counterparties, subject to certain exceptions. The proposal would provide two approaches for measuring CVA risk: the basic approach ("BA-CVA"), which is similar to the current capital rule's simple CVA approach, and a new standardized approach ("SA-CVA") that would allow banking organizations to recognize hedges for the expected exposure component of CVA risk.

VII. Definition of Capital

Under the proposal, banking organizations subject to Category III and IV standards would be required to recognize most elements of AOCI in regulatory capital, consistent with the treatment for banking organizations subject to Category I or II standards. Banking organizations subject to Category III and IV standards would also apply the more stringent capital deductions for investments in the capital of unconsolidated financial institutions, mortgage servicing assets, and certain deferred tax assets arising from temporary differences. The proposal would also apply to Category III and IV banking organizations the minority interest treatments that are currently applicable to banking organizations subject to Category I or II standards. These changes would ensure that the reported regulatory capital ratios of these banking organizations better reflect their capacity to absorb losses, including by taking into account in a timely manner net unrealized holding losses or gains on available-for-sale securities in regulatory capital. The proposal would also apply total loss absorbing capacity holdings deduction treatments to banking organizations subject to Category III or IV standards.

VIII. Supplementary Leverage Ratio and Countercyclical Capital Buffer

The proposal would apply the minimum 3 percent supplementary leverage ratio requirement to banking organizations subject to Category IV capital standards. In contrast to the risk-based capital requirements, a leverage ratio does not differentiate the amount of capital required by exposure type. Rather, a leverage ratio puts a simple and transparent limit on banking organization leverage. Leverage requirements protect against underestimation of risk both by banking organizations and by risk-based capital requirements and serve as a complement to risk-based capital requirements. The supplementary leverage ratio measures tier 1 capital relative to total leverage exposure, which includes on-balance sheet assets and certain off-balance sheet exposures. The proposed change would ensure that all large banking organizations are subject to a consistent and robust leverage requirement that serves as a complement to risk-based capital requirements and takes into account on- and off-balance sheet exposures.

The proposal would apply the countercyclical capital buffer to banking organizations subject to Category IV capital standards. The countercyclical capital buffer is a macroprudential tool that can be used to increase the resilience of the financial system by increasing capital requirements for large banking organizations during a period of elevated risk of above-normal losses. Failure or distress of a banking organization with assets of $100 billion or more during a time of elevated risk or stress can have significant destabilizing effects for other banking organizations and the broader financial system – even if the banking organization does not meet the criteria for being subject to Category II or III capital standards. Applying the countercyclical capital buffer to banking organizations subject to Category IV capital standards would increase the resilience of these banking organizations and, in turn, improve the resilience of the broader financial system. The proposed approach also has the potential to moderate fluctuations in the supply of credit over time.

IX. Disclosures and Technical Amendments

The proposal would revise certain existing qualitative disclosure requirements and introduce new qualitative disclosure requirements related to the proposal. The proposal would also remove from the disclosure tables most of the existing quantitative disclosures, which would instead be included in regulatory reporting forms.[10]

In addition, the proposal would make certain technical amendments and clarifications to certain provisions of the capital rule.

X. Impact of the Proposal and Transition

As of December 31, 2022, there were 37 top-tier U.S. depository institution holding companies and 62 U.S.-based depository institutions that report risk-based capital figures and are subject to Category I, II, III, or IV standards. The 37 top-tier depository institution holding companies include 25 U.S.-domiciled bank holding companies (8 in Category I, 1 in Category II, 5 in Category III, and 11 in Category IV) and 12 U.S. intermediate holding companies of foreign banking organizations (6 in Category III and 6 in Category IV).

To estimate the impact of the proposal on these large banking organizations, the agencies utilized data collected in Quantitative Impact Study reports from the Basel III monitoring

[10] In turn, staffs of the agencies anticipate separately proposing revisions to the Consolidated Reports of Condition and Income, the Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101), and the Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule (FFIEC 102).

exercises as well as regulatory financial reports (Call Report, FR Y-9C, FR Y-14, and FFIEC 101). The year-end 2021 reports are used for estimating the impact of the proposal on risk-weighted assets calculation and its consequence on capital requirements and potential capital shortfalls.[11] Data over a longer time period - 2015 to 2022 - are used to estimate the effect of AOCI recognition and the threshold deductions.

In aggregate across holding companies subject to Category I, II, III or IV standards, the agencies estimate that the proposal would increase total risk-weighted assets by 20 percent relative to the currently binding measure of risk-weighted assets. Across depository institutions subject to Category I, II, III or IV standards, the agencies estimate that the proposal would increase risk-weighted assets by 9 percent. Estimated impacts vary meaningfully across banking organizations, depending on each banking organization's activities and risk profile.

While the proposal would not generally change the minimum required capital ratios, the amount of required capital would change due to changes to the calculation of risk-weighted assets. As a result of the increases in risk-weighted assets, the agencies estimate that the proposal would increase the binding common equity tier 1 capital requirement, including minimums and buffers, of large holding companies by around 16 percent. The aggregate percentage increase is smaller for capital than for risk-weighted assets because for some banking organizations in the sample, the stress capital buffer requirement is determined by the dollar amount of the stress losses from the supervisory stress tests and therefore does not increase with the change in risk-weighted assets. Across depository institutions subject to Category I, II, III or IV standards, the agencies estimate that the proposal would increase the binding common equity tier 1 capital

[11] The number of entities considered for the purpose of impact estimates, based on year-end 2021 reports, may differ from the number of entities reported above as in-scope, based on year-end 2022 reports.

requirement by an estimated 9 percent, consistent with the increase in risk-weighted assets for the depository institutions. The percentage impact of the proposal on binding tier 1 capital requirements would be smaller than for common equity tier 1 because the supplementary leverage ratio, which is calculated as tier 1 capital divided by total leverage exposure, binds in some large banking organizations.

To provide banking organizations sufficient time to meet the capital requirements under the proposal and also to develop the reporting and infrastructure requirements, the proposal includes a three-year transition period beginning July 1, 2025.

Conclusion:

FDIC staff requests that the FDIC Board approve the attached interagency NPR and authorize its publication in the *Federal Register* with a public comment period that closes on November 30, 2023].

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