

Interagency Overview of the Notice of Proposed Rulemaking for Amendments to the Regulatory Capital Rule

**Applicable to Large Banking Organizations and to Banking Organizations with
Significant Trading Activity**

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Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Washington, D.C.

Background

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve Board), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) recently issued a notice of proposed rulemaking that would substantially revise the regulatory capital framework for banking organizations with total assets of \$100 billion or more and their depository institutions (DI) subsidiaries (large banking organizations) and banking organizations with significant trading activity. The proposal would not amend the capital requirements applicable to smaller, less complex banking organizations.¹

While the agencies encourage interested parties to consult this document for an overview of certain elements of the proposal, comments should be based on the notice of proposed rulemaking. Notably, this overview does not discuss every aspect of the proposal. The agencies will accept comments on the proposal through November 30, 2023. The proposal can be found on each agency's respective websites. Instructions on how to submit a comment are found in the notice of proposed rulemaking.

Overview of the Proposal

The proposal would improve the resilience of the U.S. banking system by modifying capital requirements for large banking organizations to better reflect their risks and apply more transparent and consistent requirements across large banking organizations. The proposal includes changes that would:

- **Improve consistency of risk measurement in the capital rule for large banking organizations.** The proposal would replace internal-models-based capital requirements for credit and operational risk currently included in Category I or II capital standards with new, risk-sensitive standardized requirements (the “expanded risk-based approach”) that would apply to all banking organizations with \$100 billion or more in total assets (that is, banking organizations subject to Category I, II, III, or IV capital standards).²
- **Apply the capital standards for large banking organizations to a broader set of large banking organizations.** The proposal would require all banking organizations with \$100 billion or more in total assets to calculate regulatory capital in a consistent manner, including by reflecting unrealized gains and losses on available-for-sale securities in regulatory capital to better reflect actual loss-absorbing capacity. Additionally, the proposal would require all banking organizations with \$100 billion or more in total assets to meet the supplementary leverage ratio requirement³ and apply the countercyclical capital buffer, if activated.⁴

¹ A smaller banking organization could be subject to the newly revised market risk capital rule if its trading assets and trading liabilities are at least \$5 billion or at least 10 percent of its total assets.

² See Table 1 below for a summary of the thresholds for a banking organization to be subject to Category I, II, III, or IV capital standards.

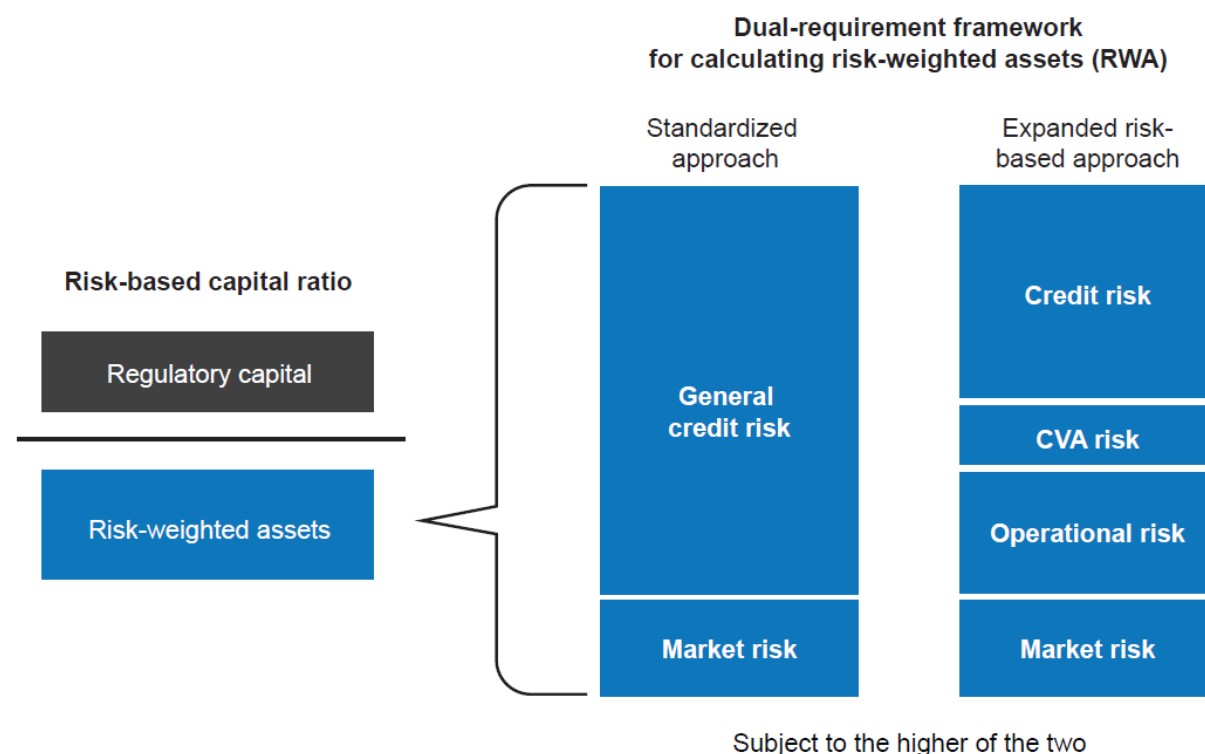
³ Under the supplementary leverage ratio requirement, a banking organization must maintain a minimum amount of capital relative to its on- and off-balance-sheet exposures.

⁴ The countercyclical capital buffer is a macroprudential tool that the agencies may decide to activate based on a range of macroeconomic, financial, and supervisory information.

- **Maintain stricter standards for the largest, most systemic banking organizations.** Under the proposal, U.S. global systemically important bank holding companies (U.S. GSIBs) would continue to be subject to a risk-based capital surcharge and Category I banking organizations would continue to be subject to the enhanced supplementary leverage ratio.⁵
- **Increase transparency of capital requirements across large banking organizations.** The proposal's use of standardized approaches and enhanced public disclosures would increase the comparability and transparency of large banking organizations' capital requirements.
- **Maintain two methodologies to determine risk-based requirements.** The proposal would maintain the capital rule's dual-requirement structure and require large banking organizations to calculate risk-weighted asset amounts under the current standardized approach and the expanded risk-based approach and use the higher of the two risk-weighted asset amounts to satisfy minimum capital requirements. This approach would continue to ensure that the capital requirements applicable to large banking organizations are at least as strict as those applicable to smaller banking organizations (see Figure 1).
- **Provide a transition period.** The proposal would provide transition provisions to allow banking organizations sufficient time to adjust to the proposed requirements. Specifically, the proposal would phase in the requirements over three years, such that the new provisions would be fully implemented starting in the fourth year after the effective date of the rule.

Figure 1: Standardized Approach and Expanded Risk-Based Approach

Banking organizations subject to the expanded risk-based approach would calculate two risk-weighted asset amounts and be subject to the higher of the two.



⁵ The enhanced supplementary leverage ratio is a higher supplementary leverage ratio applicable to Category I banking organizations.

Major Elements of the Proposal

Scope of application: The proposal would revise the regulatory capital framework for large banking organizations. See Table 1 for additional details on the proposal’s scope for large banking organizations. By strengthening the requirements that apply to all large banking organizations, the proposal would enhance their resilience and reduce risks to U.S. financial stability and costs that the Deposit Insurance Fund may incur upon the material distress or failure of these large banking organizations. The proposal would apply the supplementary leverage ratio and countercyclical capital buffer requirements, if activated, to all large banking organizations, rather than only to banking organizations subject to Category I, II, or III capital standards. Banking organizations subject to Category I standards would continue to be subject to the strictest standards.

Table 1: Proposed Scope of NPR for Large Banking Organizations

Category I	Category II	Category III	Category IV
U.S. GSIBs (and their DI subsidiaries)	Banking organizations with ≥ \$700 billion in total assets or ≥ \$75 billion in cross-jurisdictional activity (and their DI subsidiaries)	Banking organizations with ≥ \$250 billion in total assets or ≥ \$75 billion in nonbank assets, weighted short-term wholesale funding, or off-balance-sheet exposure (and their DI subsidiaries)	Other banking organizations with \$100 billion to \$250 billion in total assets (and their DI subsidiaries)

Changes to improve consistency in capital measurement: The proposal would result in consistent regulatory capital measures for all large banking organizations that better reflect their capacity to absorb losses. The proposal would require banking organizations subject to Category III or IV standards to include unrealized gains and losses on available-for-sale securities in regulatory capital (the numerator of the risk-based capital ratios). The capital measurement for banking organizations subject to Category III or IV standards would be consistent with that of banking organizations subject to Category I or II standards.

Changes to improve consistency and risk measurement: The proposal would replace the models-based advanced approaches for credit and operational risks with a new set of standardized approaches. The operational risk capital requirements under the expanded risk-based approach would be based on a banking organization’s business volume and historical losses. The proposal also would replace the current market risk framework with a new standardized methodology for calculating risk-weighted assets for market risk and a new models-based methodology. The new models-based approach would require a more rigorous model approval process, which includes supervisory trading desk-level approval for the use of the proposed models-based approach. The new models-based methodology would better account for tail risk and would better reflect the risks of less liquid trading positions. Under the proposed expanded risk-based approach, banking organizations would calculate total risk-weighted assets using (1) a new standardized approach for credit risk; (2) the revised approach for credit valuation adjustment (CVA) risk; (3) a new standardized approach for operational risk; and (4) the revised approach to market risk.

Changes to the credit valuation adjustment (CVA) risk capital requirement: CVA risk is the exposure to changes in the valuation of over-the-counter (OTC) derivative contracts driven by changes in counterparty credit risk. The proposal would replace the current approaches for measuring capital requirements for CVA risk for OTC derivative contracts with non-model-based approaches, including a less burdensome option intended for less complex banking organizations.

Disclosure requirements: The proposal would revise certain existing qualitative disclosure requirements and introduce new and enhanced qualitative disclosure requirements related to the proposed revisions to the capital rule. The proposal would also remove from the disclosure tables most of the existing quantitative disclosures, which would instead be included in regulatory reporting forms. The agencies will propose revisions to the reporting forms of the Federal Financial Institutions Examination Council (FFIEC) for affected banking organizations to align forms and instructions to the proposed revisions.

Timeline and Transition Period

The proposal includes transition provisions to provide large banking organizations sufficient time to adjust to the proposed requirements after adoption of a final rule by the agencies. The revised expanded total risk-weighted assets would be phased in over three years starting July 1, 2025. For banking organizations subject to Category III or IV standards, the requirement to reflect in regulatory capital accumulated other comprehensive income (AOCI), which includes unrealized gains and losses on available-for-sale securities, would also be phased in over three years starting July 1, 2025. All other elements of the calculation of regulatory capital would apply upon the effective date of the rule. The agencies have proposed that the rule would be fully phased-in on July 1, 2028.