

Statement by Martin J. Gruenberg, Member, FDIC Board of Directors on the Final Rule: Regulatory Capital Treatment for Investments in Certain Unsecured Debt Instruments of Global Systemically Important U.S. Bank Holding Companies

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This Final Rule before the FDIC Board today would address the regulatory capital treatment of investments by advanced approaches banking organizations in unsecured debt instruments issued by foreign or U.S. global systemically important banking organizations for the purpose of meeting minimum total loss absorbing capacity (TLAC) requirements and, as applicable, long-term debt requirements.

Under the Final Rule, the exposures of an advanced approaches banking organization to covered debt instruments generally would be subject to deduction from the banking organization's regulatory capital. The purpose of the Final Rule is to reduce both interconnectedness within the financial system and systemic risk.

The substance of the Final Rule is substantially similar to the Notice of Proposed Rulemaking (NPR) approved by the FDIC Board in 2019, as well as substantially consistent with the Basel Committee's TLAC Standards.¹ However, the scope of application has been significantly narrowed. The NPR applied to nineteen banking organizations: the eight U.S. global systemically important banks (GSIBs), as well as eleven large U.S. banking organizations and foreign banking organizations with large U.S. operations. The Final Rule is limited only to the eight U.S. GSIBs and an additional U.S. banking organization with substantial cross-jurisdictional activity.²

The systemic risk associated with banking organizations' investments in covered debt instruments is greatest for the nine banking organizations subject to the Final Rule. However, as the preamble to the Final Rule states, "...the agencies acknowledge the possibility of potential systemic risks associated with other banking organizations' investments in covered debt instruments and will continue to evaluate whether additional steps are warranted to address such risks."³

Given the potential systemic risks posed by the nineteen banking organizations subject to the NPR, the scope of the Final Rule should not have been narrowed. For that reason, I will vote against the Final Rule.

¹See Notice of Proposed Rulemaking: Regulatory Capital Treatment for Investments in Certain Unsecured Debt Instruments of Global Systemically Important U.S. Bank Holding Companies, Certain Intermediate Holding Companies, and Global Systemically Important Foreign Banking

Organizations (TLAC Holdings NPR), 84 FR 13814 (April 8, 2019); Basel Committee on Banking Supervision TLAC Holdings Standard at <https://www.bis.org/bcbs/publ/d387.pdf>.

²The eight U.S. G-SIBs are Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JP Morgan Chase, Morgan Stanley, State Street, and Wells Fargo, and the ninth bank referenced is Northern Trust. *See* <https://www.federalreserve.gov/aboutthefed/boardmeetings/files/tailoring-rule-visual-20191010.pdf>. In addition, the 10 large banking organizations previously considered advanced approaches banking organizations were: U.S. Bancorp; PNC Financial Services Group; TD Group US Holdings; Capital One Financial Group; Charles Schwab Corp.; HSBC North American Holdings; American Express; Barclays US; DB USA; and Credit Suisse Holdings US. Source: FR Y-9C.

³Preamble to the Final Rule at 16.