Final Rulemaking: Capital and Liquidity Tailoring for Large Banking Organizations

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In May 2018, Congress enacted the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Act"), which raised the asset threshold for the application of enhanced prudential standards under the Dodd-Frank Act to $250 billion, while giving the Federal Reserve Board the authority to apply enhanced standards to firms with total consolidated assets between $100 billion and $250 billion under certain conditions. In November 2018 and April 2019, the federal banking agencies issued proposed rules to implement this provision for large domestic and foreign banking organizations.

After receiving many helpful comments, today we consider a final rule to tailor capital and liquidity regulations applicable to these firms. The rule would implement the Act by tailoring the application of regulatory capital and liquidity requirements based on a banking organization's size, risk profile, and systemic footprint by placing them into one of four categories.

Category I includes the largest, systemically important banks: those firms identified as U.S. global systemically important banks (G-SIBs). As I have said on many occasions: maintaining strong capital and liquidity requirements at these banks is an essential policy objective. Importantly, these banks will remain subject to the most rigorous capital and liquidity standards without change. Smaller and less complex firms will be subject to standards that are tailored in a manner that better fits their risk profiles.

All of the banking organizations covered by this rule would continue to be subject to robust capital requirements. Any bank with total consolidated assets above $100 billion would still be subject to the total risk-based capital ratio, the tier 1 risk-based capital ratio, the common equity tier 1 risk-based capital ratio, the tier 1 leverage ratio, and the capital conservation buffer, in addition to supervisory stress testing. Banks that qualify as Category III or higher would also be subject to the countercyclical capital buffer and the supplementary leverage ratio, and the G-SIBs would additionally remain subject to the G-SIB surcharge, the enhanced supplementary leverage ratio, and the total loss absorbing capacity rule, among other heightened standards.

The cumulative impact on capital among affected banking organizations is immaterial, with an estimated total decrease of less than one percent. However, the elimination of the advanced approaches framework for Category III and Category IV banks represents meaningful compliance burden relief without reducing capital adequacy or sacrificing safety and soundness.

With respect to liquidity standards, the final rule recognizes that strong buffers are critical for the most systemically important banks. Under the final rule, banks in Category I and Category II and banks in Category III that rely on large amounts of short-term wholesale funding would remain subject to the same rigorous standards that they are today.

The remaining Category III banks would be subject to a reduced Liquidity Coverage Ratio (LCR). This approach would continue to mandate that these banks maintain strong reserves of liquid assets, while recognizing that such firms are smaller and less complex than banks subject to the full LCR. The final rule sets this requirement at 85 percent of the full LCR, at the top of the proposed range of 70 to 85 percent.

Category IV banks would generally no longer be subject to standardized liquidity standards under the final rule,[1] but would continue to be subject to liquidity stress-testing and liquidity risk management requirements at the holding company level. The aggregate liquidity impact is about a two percent reduction in minimum required liquidity for domestic and foreign banking organizations with more than $100 billion in assets.

I am pleased to support this final rule. It represents meaningful and appropriate tailoring to capital and liquidity standards while ensuring that the largest, most systemically important banks remain subject to the most rigorous requirements. It strikes an appropriate balance that ensures the largest banks have sufficient liquid assets to withstand periods of stress while taking into account the potential broader market impacts.

I would like to thank the staff of the OCC and Federal Reserve who worked on this proposed rule for achieving this goal. In particular, I would like to thank the staff of the FDIC for all of their hard work.

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[1]Bank holding companies in Category IV with more than $50 billion in short-term wholesale funding would however be subject to a reduced LCR.