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FDIC Board Approves Basel III Interim Final Rule and Supplementary Leverage Ratio Notice of Proposed Rulemaking

FOR IMMEDIATE RELEASE

The FDIC Board of Directors today approved an interim final rule that adopts with revisions the three notices of proposed rulemaking (NPRs) that the banking agencies proposed last year related to Basel III and the standardized approach. The FDIC Board also approved a joint interagency Notice of Proposed Rulemaking to strengthen the supplementary leverage requirements for the largest most systemically important banking organizations.

FDIC Chairman Martin J. Gruenberg delivered the following statement at the FDIC Board meeting: "Today, as staff has explained, we are considering two important regulatory capital rulemakings. The first rulemaking is an interim final rule that adopts with revisions the three notices of proposed rulemakings or NPRs that the banking agencies proposed last year. These are the Basel III NPR, the Basel III advanced approaches NPR, and the so-called Standardized Approach NPR. This interim final rule:

- is identical in substance to the final rules issued by the Federal Reserve Board and the OCC;
- allows the FDIC to proceed with the implementation of these revised capital regulations in concert with our fellow regulators, and
- allows us to seek comment on the interactions between the revised risk-based capital regulations and the proposed strengthening of the leverage requirements

for the largest and most systemically significant banking organizations, which will be the second rulemaking we will be considering today.

The interim final rule on Basel III would strengthen both the quality and quantity of risk-based capital for all banks, including placing greater emphasis on tier 1 common equity capital. Tier 1 common equity has been widely recognized as the most loss absorbing form of capital. These changes will create a stronger, more resilient industry better able to withstand environments of economic stress in the future.

During the comment period on these proposals, we received a large number of comments, particularly from community banks, expressing concerns with some of the provisions of the NPRs. The interim final rule makes significant changes to aspects of the NPRs to address a number of these community bank comments. Specifically, unlike the NPR, the rule does not make any changes to the current risk-weighting approach for residential mortgages. It allows for an opt-out from the regulatory capital recognition of accumulated other comprehensive income, or AOCI, except for large banking organizations that are subject to the advanced approaches requirements. Finally, the Federal Reserve has adopted the grandfathering provisions of section 171 of the Dodd Frank Act for Trust Preferred Securities issued by smaller Bank Holding Companies. Comments received on all these matters were extremely helpful to the agencies in reaching decisions on the proposals.

The interim final rule maintains the existing U.S. leverage ratio for all banks, and this leverage ratio requirement will continue to set a floor for the leverage requirements applicable to large advanced approaches banking organizations. Consistent with the Basel III international agreement, the rule also includes a three percent supplementary leverage ratio that applies only to the 16 large banking organizations subject to the advanced approaches requirements. The supplementary leverage ratio is more stringent than the existing U.S. leverage ratio by including many off-balance sheet exposures, in addition to on-balance sheet exposures, in its denominator.

The second rulemaking is a joint interagency NPR to strengthen the supplementary leverage requirements for the largest most systemically-important banking organizations, which would currently apply to eight institutions, as staff has described. Insured banks covered by the NPR would need to satisfy a six percent supplementary leverage ratio threshold to be considered well capitalized for PCA purposes. Bank Holding Companies covered by the NPR would need to maintain supplementary leverage ratios of at least five percent, made up of a three percent minimum ratio plus a two percent buffer.

As the NPR points out, maintenance of a strong base of capital at the largest, most systemically important institutions is particularly important because capital shortfalls at these institutions can contribute to systemic distress and can have material adverse economic effects. Analysis by the agencies suggests that a three percent minimum supplementary leverage ratio would not have appreciably mitigated the growth in leverage among these organizations in the years preceding the recent crisis. Higher capital standards for these institutions would place additional private capital at risk before calling upon the Deposit Insurance Fund and the Federal government's resolution mechanisms. In sum, the combined effects of these two rulemakings are to:

- strengthen both the quality and quantity of risk-based regulatory capital for all banks and banking organizations;

- apply the Basel III supplementary minimum leverage ratio requirement of three percent to the 16 largest U.S. banking organizations that are subject to the advanced approaches capital framework and their subsidiary insured institutions; and

- further strengthen that supplementary leverage ratio requirement for the eight largest and most systemically important banking organizations and their subsidiary insured institutions by establishing a six percent well capitalized standard at the bank and a minimum supplementary leverage ratio plus buffer requirement of five percent at the holding company.

While much contained in these rules does not apply to community banks, we want to be certain that community banks fully understand the changes in the capital rules that do apply to them. To that end, as we did with the NPRs, the FDIC is planning an extensive outreach program to assist our community banks in understanding the interim final rule and the changes it makes to the existing capital requirements. We will provide technical assistance in a variety of forms targeted specifically at community banks, including community bank guides on compliance with the rule, a video that will be available on the FDIC website, a series of regional outreach meetings, and subject matter experts at each of our regional offices whom banks can contact directly with questions.

Finally, I would like to thank our staff, as well as OCC and Federal Reserve Board staff, for their thoughtful and tireless work on these two important rulemakings."

Attachment: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule. - PDF (PDF Help)

Attachment: Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and the Insured Depository Institutions They Control - PDF (PDF Help)