ALERT MEMORANDUM

Federal Reserve Proposes "Stress Capital Buffer" and Scales Back Enhanced Supplementary Leverage Ratio

An Effort to "Simplify", Nevertheless Adds Complexity

April 16, 2018

On April 10, the Federal Reserve proposed a significant integration of its stress testing regime with its ongoing supervisory capital requirements, by introducing a new "stress capital buffer" and a new Tier 1 leverage buffer requirement for the 39 firms subject to the Federal Reserve's annual CCAR supervisory stress tests. The next day, the OCC joined the Federal Reserve in proposing to scale back the buffers related to the "enhanced" supplementary leverage ratio applicable to the 8 U.S. GSIBs and their subsidiary national and state member banks.

The eSLR proposal would deliver leverage capital relief for some GSIBs and is ostensibly designed to ensure the eSLR serves as a backstop rather than a binding constraint. The eSLR proposal would reduce the current eSLR add-on from its fixed levels—2% (at the GSIB holding company level) and 3% (for GSIB bank subsidiaries)—to a dynamic measure based on 50% of the firm's U.S. GSIB surcharge (the higher of method 1 and method 2). Therefore, while the eSLR proposal adheres to the Basel Committee's December 2017 standard for a GSIB add-on to the SLR, it continues to incorporate the "gold-plating" that U.S. agencies have designed into the GSIB surcharge method 2 calculations.

Furthermore, under the U.S. capital adequacy framework prior to the stress buffers proposal, the supervisory stress test regime is, and almost certainly would be after the proposal, the binding capital constraint on most of the 39 CCAR participants, including the GSIBs. The Federal Reserve touts the stress capital buffer and related capital and stress testing changes as both "simplifying" and reflective of feedback it received as part of its review of the stress test regime. However, there are several elements of the proposal that would add complexity and uncertainty to the process, including (among others):

- The buffers would be determined institution-by-institution and would change annually, would be based on the opaque models used by the Federal Reserve to determine losses over the stress horizon, and would replace a simple and static 2.5% capital conservation buffer; and
- A "new" stress leverage buffer applied to the U.S.-style leverage ratio would add complexity to a measure that is only used in the U.S., but that is, in its current form, simpler than the international SLR.

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following authors

NEW YORK
One Liberty Plaza
New York, NY 10006-1470
T: +1 212 225 2000
F: +1 212 225 3999

Hugh C. Conroy Jr.
+1 212 225 2828
hconroy@cgsh.com

Lauren Gilbert
+1 212 225 2624
lgilbert@cgsh.com

WASHINGTON
2000 Pennsylvania Avenue, NW
Washington, DC 20006-1801
T: +1 202 974 1500
F: +1 202 974 1999

Allison Breault
+1 202 974-1532
abreault@cgsh.com

Joshua Nimmo
+1 202 974 1681
jnimmo@cgsh.com

Zachary Baum
+1 202 974 1873
zbaum@cgsh.com

Figure 1 – Stress Capital Buffer Comparison (maximum ratios shown)

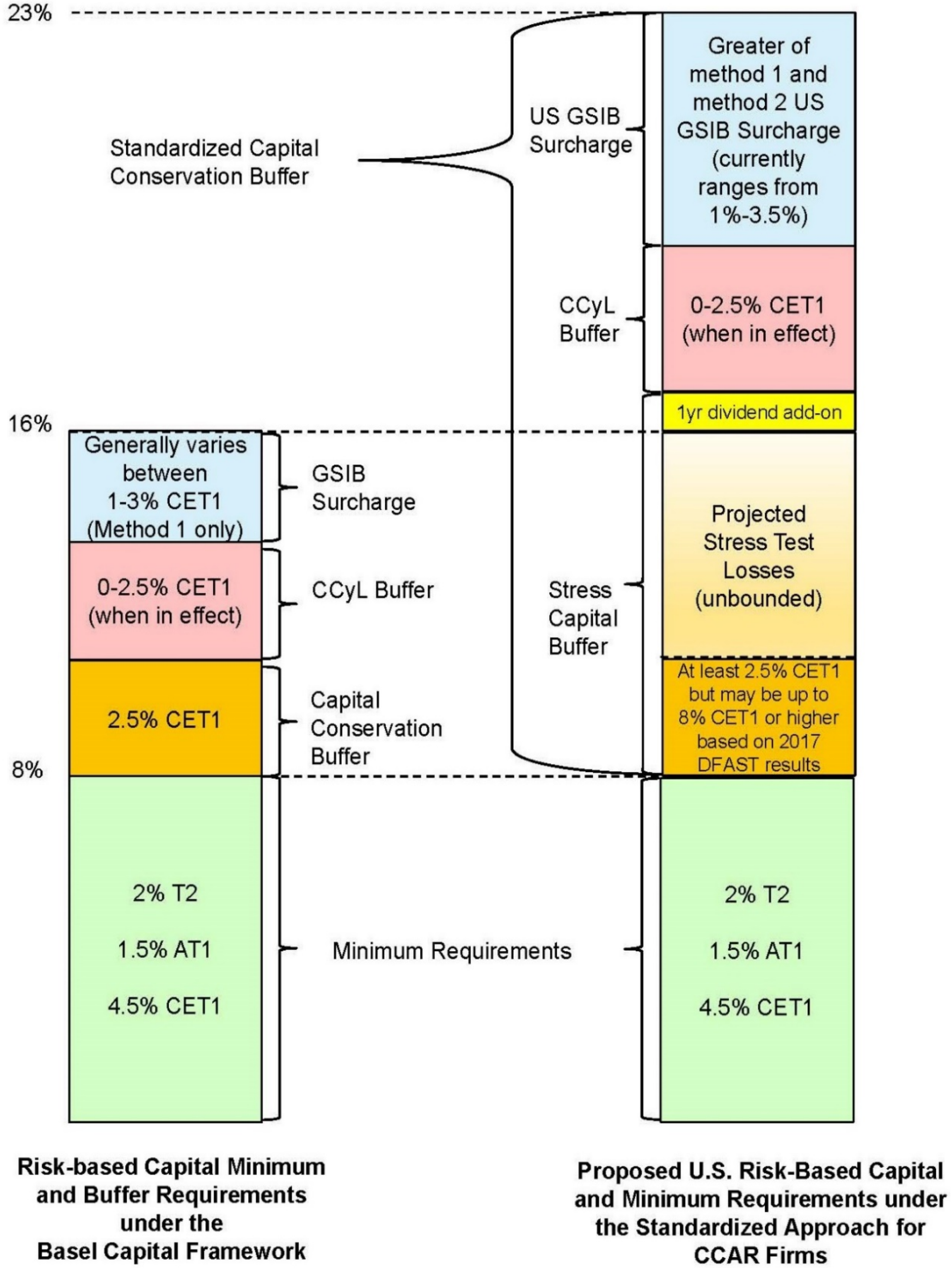
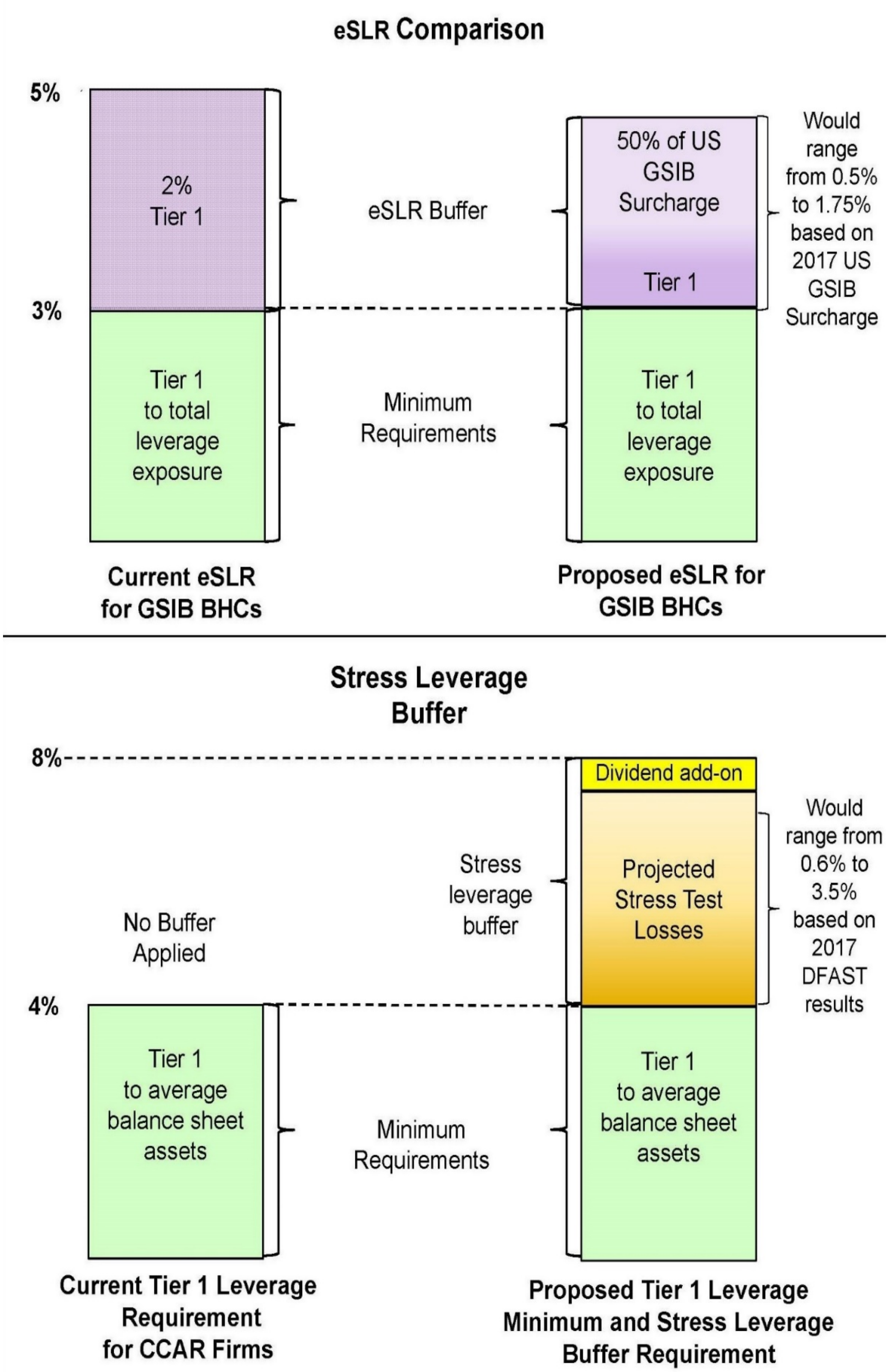


Figure 2 – Proposed eSLR and Stress Leverage Buffer Comparison (maximum ratios shown)



PART I:
STRESS BUFFERS PROPOSAL

Summary

The stress buffers proposal ("SB proposal") purports to simplify the Federal Reserve's current capital and stress testing requirements by tailoring the capital conservation buffer ("CCB") to incorporate the stress capital requirements imposed under the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR"), which for most subject firms ("CCAR firms") is their binding capital constraint. The SB proposal does include certain welcome simplifications of the CCAR balance sheet assumptions, but it also introduces an entirely new (and unexpected) Tier 1 stress leverage buffer that contributes to the complexity of the proposal and amplifies the uncertainty surrounding its immediate and ongoing impact on effective capital requirements.

— ***Scope of Application.*** The SB proposal is relevant only for the 39 CCAR firms, including both bank holding companies ("BHCs") with total consolidated assets of $50 billion or more and intermediate holding company subsidiaries ("IHCs") of foreign banking organizations ("FBOs"). Non-CCAR firms would not be materially impacted by the SB proposal. For non-CCAR firms, the capital conservation buffer would remain a fixed 2.5% of common equity tier 1 ("CET 1").

— ***The Stress Capital Buffer.*** The SB proposal would redesign the CCB for CCAR firms by replacing the fixed 2.5% CCB with a dynamic buffer incorporating new elements as well as certain elements already set forth in the capital adequacy regulations. The SB proposal starts with a bespoke "stress capital buffer" ("SCB") to be recalibrated annually based on each CCAR firm's projected losses under the severely adverse stress scenario. The SCB would have a 2.5% floor, and therefore, based on 2017 Dodd-Frank Act Stress Test ("DFAST") results, the SCB for CCAR firms could have ranged between 2.5% and over 8% (although the median decline in CET 1 for all CCAR firms was 2.8% in the 2017 DFAST).[1]

— ***Calibration of the SCB.***

A CCAR firm's SCB would be recalibrated annually as an add-on to a CCAR firm's minimum required standardized approach risk-based capital ratios and would include:

(i) the maximum projected decline in its CET 1 capital ratio under the DFAST severely adverse stress scenario, and

(ii) its planned common stock dividends for the fourth through seventh quarters of the nine-quarter CCAR planning horizon (expressed as a percentage of projected risk-weighted assets ("RWA") for such quarters).

As noted above, the SCB would have a floor of 2.5%.

— ***Incorporation of the SCB into a Standardized Capital Conservation Buffer.***

- Under the SB proposal, the SCB would then be incorporated into a broader buffer named the "standardized approach capital conservation buffer" ("Standardized CCB"). Because the SCB is based on the DFAST and the DFAST is based solely on the "standardized approaches" under the U.S. capital adequacy regulations, the Standardized CCB buffer calculation would only be incorporated into a CCAR firm's measurements under the standardized approaches.
- All CCAR firms must calculate their risk-based capital ratios under the standardized approaches, whether the standardized approaches are their sole binding methodology or whether the firm is also subject to the advanced approaches and the so-called Collins Amendment requirement to

[1] Federal Reserve, Dodd-Frank Act Stress Test 2017: Supervisory Stress Test Methodology and Results, p. 29.

measure compliance based on the worse of the two methods.

— ***Calculation of the Standardized CCB.***

The Standardized CCB calculation would be the aggregate of a CCAR firm's:

(i) SCB (floored at 2.5%);

(ii) any countercyclical capital buffer ("CCyl Buffer") that may be in effect (for advanced approaches firms); and

(iii) the greater of the firm's GSIB surcharge under method 1 (which aligns with the Basel capital framework's GSIB surcharge) and method 2 (which reflects a firm's reliance on short-term wholesale funding and generally results in a higher surcharge) ("U.S. GSIB Surcharge").

— ***Application of the Standardized CCB.***

- CCAR firms would be required to maintain the Standardized CCB above their minimum CET 1 risk-based, Tier 1 risk-based and total risk-based minimum capital requirements. If a CCAR firm's risk-based capital ratios dipped into the Standardized CCB zone, the firm would become subject to increasing restrictions on its capital distributions and discretionary bonus payments. The proposal would not alter the current framework that requires incremental step-ups in distribution and payment restrictions as a firm falls further into the Standardized CCB range.
- The proposal would apply the Standardized CCB *only* at level of the top-tier consolidated BHC and/or IHC, and thus would *not* change the application of the current static 2.5% CCB to a CCAR firm's insured depository institution ("IDI") subsidiaries. In addition, non-CCAR firms would continue to apply the static 2.5% CCB.
- CCAR firms that are subject to the "advanced approaches" capital calculation methodologies would also be subject to an advanced approaches capital conservation buffer ("Advanced CCB") above their advanced approaches minimum requirements. The calibration of the Advanced CCB would be identical to the Standardized CCB, but instead of incorporating the SCB, the Advanced CCB would include a fixed 2.5% CET 1 requirement (i.e., the current CCB),

— ***The New "Stress Leverage Buffer".***

- The SB proposal introduces a new "stress leverage buffer" ("SLB") to be applied to a CCAR firm's Tier 1 leverage ratio (the U.S.-style leverage ratio, and not the supplementary leverage ratio ("SLR") which incorporates the Basel international leverage ratio). This SLB was not previously discussed in former Federal Reserve Governor Tarullo's speeches describing the Federal Reserve's vision for the SCB.[2]
- The Federal Reserve asserts that the SB proposal would actually lower the effective post-stress Tier 1 leverage requirements for GSIBs despite the introduction of the new SLB requirement, because of the proposed revisions (see "Static Balance Sheet" below) to certain CCAR assumptions that would provide for a static balance sheet and stylized assumptions of limited capital distributions.

— ***Calibration of the SLB.***

The SLB would be recalibrated annually as an add-on to a CCAR firm's minimum required Tier 1 leverage ratio and would consist of a CCAR firm's:

(i) maximum projected decline in its Tier 1 leverage ratio under the DFAST severely adverse stress scenario, and

(ii) its planned common stock dividends for the fourth through seventh quarters of the nine-quarter CCAR planning horizon (expressed as a percentage of the firm's projected leverage

[2] See, e.g., Governor Daniel K. Tarullo, "Next Steps in the Evolution of Stress Testing," Sept. 26, 2016, and "Departing Thoughts," Apr. 4, 2017.

ratio denominator (average balance sheet assets) for such quarters).

The SLB would not have a floor.

— ***Application of the SLB.***

- CCAR firms would be required to maintain the SLB above their 4% minimum Tier 1 leverage requirement. If a CCAR firm's leverage ratio dipped into the SLB zone, the firm would become subject to increasing restrictions on its capital distributions and discretionary bonus payments. Therefore, the SLB would function in the same manner as the Standardized CCB and current CCB.
- The proposal would *not*, however, extend the SLB concept to the SLR. The proposal also would *not* impose an SLB requirement on the Tier 1 leverage ratios of IDI subsidiaries of CCAR firms.

— ***Distinction Between CCAR and DFAST Collapsed.*** The SB proposal would collapse the distinction between the DFAST and the CCAR in several ways:

- First, it does not appear that the CCAR, as a "separate" stress test against planned capital actions, would be run. CCAR firms will continue to submit their planned capital actions for the nine-quarter stress horizon, but (i) the Federal Reserve will run its supervisory stress test only under the DFAST assumptions (which would be modified under the SB proposal by, among other things, including an assumption that *no* common stock dividends are issued during the nine quarters), and (ii) in lieu of incorporating either the current DFAST assumption regarding dividends (equal to an average of the prior four quarters' dividends, taking into account common stock issued as expected employee compensation or in connection with a planned merger or acquisition) or planned capital actions into the stress test, a CCAR firm would be required (as described above, and outside the stress test) to include (or "pre-fund") its fourth through seventh quarter planned common stock dividends in its SCB.
- Second, as a procedural matter, the SB proposal eliminates the current pre-disclosure multi-step process whereby the Federal Reserve (i) discloses the DFAST supervisory stress test results publicly, (ii) discloses confidentially to the CCAR firms their CCAR stress test results incorporating planned capital actions, (iii) provides the CCAR firms with the opportunity (typically over a weekend) to modify their planned capital actions and submit revised data and (iv) later discloses publicly the CCAR stress test results (including both the "before" and "after" results from the CCAR firms' modifications to planned capital actions).
- Under the SB proposal, a new timeline would be applicable. The Federal Reserve would continue to provide CCAR firms with the results of their supervisory stress tests by June 30, and at this time, they would disclose each CCAR firm's stress buffer requirements (SCB and SLB), as well as the results of any applicable qualitative review, to the public.
- It appears that, *after public disclosure*, each CCAR firm would be required to assess whether their planned capital distributions would be permitted under the baseline scenario after taking into account the announced buffers. If any planned distribution would cause a CCAR firm to dip into any of its buffers under its baseline scenario, the firm would be required to reduce its capital distributions to ensure they would be permitted under the revised capital rule. (Note that prior to submitting its capital plan, a CCAR firm would be required to project its own SCB and SLB (as well as other items, such as its U.S. GSIB Surcharge or known changes to the CCyl Buffer) under the standardized approach and propose capital actions consistent with such projections as applicable to its own baseline scenario.)

- Commenters on the SB proposal may question whether this assessment can be accomplished in two business days. In comparison to a CCAR exercise where the Federal Reserve's confidential disclosure would already have assumed planned capital actions and the Federal Reserve would be asking CCAR firms to modify one input to positively affect the results, it would appear to be a more involved and complicated exercise to model the impact of planned capital distributions across the nine-quarter baseline scenario since the Federal Reserve would not be providing information based on incorporation of planned capital distributions into its supervisory modeling. The Federal Reserve specifically requests comment on any challenges that may be posed by the two-day timeframe.

— ***Changes to the Quantitative Assessment.***

- The SB proposal would eliminate any *quantitative* objection as a result of CCAR. Therefore, the CCAR stress tests largely become an exercise to establish and re-calibrate a CCAR firm's SCB and SLB each year. Instead of a mandated resubmission in the face of a quantitative "fail", the SB proposal appears to place discretion in the hands of a CCAR firm to determine if it would like to seek a reconsideration of its SCB. (See "Reconsideration Procedure" below.)
- In this way, however, the proposal transforms the annual "single-point-in-time" quantitative objection based on stressed forecasts into a day-to-day ongoing capital requirement. As a result, the CCAR quantitative assessment effectively remains, although it would be more akin to daily pop quiz (against which compliance is measured) for CCAR firms rather than the current annual exam.
- Notwithstanding the intellectual consistency achieved by incorporating and integrating the stress test results into daily capital compliance requirements, this transformation could significantly increase burden for CCAR firms as they increase monitoring and controls to avoid any inadvertent slip below (the likely higher) capital amounts into the buffer zone.

— ***Qualitative Assessment Will Remain for LISCC and "Large and Complex" CCAR Firms.*** Given the additional complexity highlighted by the previous few paragraphs, commenters may also wish to question why the annual *qualitative* review will continue to apply to (i) CCAR firms included in the Federal Reserve's Large Institution Supervision Coordinating Committee ("LISCC") portfolio (which currently includes the eight U.S. GSIBs, and the IHCs of Barclays, Credit Suisse, Deutsche Bank and UBS) and (ii) CCAR firms deemed "large and complex" (defined as firms with total assets of $250 billion or total nonbank assets of $75 million or more). The Federal Reserve does solicit comment on whether this annual qualitative assessment should be eliminated or adjusted.

— ***Reconsideration Procedure.***

- The SB proposal would establish a procedure for requesting reconsideration of a CCAR firm's resulting stress buffers (or qualitative objection, if any). Any CCAR firm would be able to submit a request for reconsideration within 15 days of receipt of its stress buffer, to which the Federal Reserve would respond within 30 days.
- While a CCAR firm's request for reconsideration is pending, its capital buffers would not be effective, *but* since the stress buffers would not take effect until October 1, this could effectively give the Federal Reserve approximately three months to render its determination. Prior to October 1, a CCAR firm would be able to continue to make capital distributions that were included in its last annual capital plan to which the firm received a non-objection.
- While a reconsideration procedure may be both helpful and necessary, it would appear that the Federal Reserve's proposed timelines may raise significant questions for a CCAR firm. A CCAR firm's stress capital requirements would

be publicly disclosed at the end of June. Presumably, based on this public disclosure, market analysts would be able to determine whether a CCAR firm would be able to make any previously announced planned dividends. Furthermore, the SB proposal indicates that the Federal Reserve may disclose publicly a CCAR firm's request for reconsideration. In circumstances where a CCAR firm requests and ultimately receives a favorable downward adjustment to its stress capital buffer, it may suffer an inappropriate market penalty in the interim before receiving its downward adjustment.

- The procedure may also raise concerns under securities law disclosure requirements to the extent that a CCAR firm's request for reconsideration of its stress buffers would be considered material information subject to public disclosure. In a circumstance where reconsideration is not granted but was publicly disclosed, the adverse market effects could be amplified for such firms, potentially driving up their cost of capital.

— ***Revisions to CCAR Assumptions.***

- *Capital Actions.* As described above, by collapsing the DFAST and CCAR stress tests, the SB proposal would no longer incorporate all planned capital actions into the stress test, thus eliminating an irrational assumption in the CCAR test that a firm would carry out nine quarters of its planned capital actions even under stress and even when applicable buffer requirements would make such distributions impossible. The proposal would eliminate the current CCAR assumption that all planned capital distributions, as well as all planned capital repurchases and redemptions, would occur in the stress scenarios. As with the current DFAST assumptions, the Federal Reserve would assume no issuances of capital instruments, other than in relation to a planned merger or acquisition.

  As noted, a CCAR firm would, however, include in its SCB (i.e., "prefund") four quarters of planned common stock dividends (but not repurchases or redemptions). Inexplicably, however, the DFAST stress test employed to determine the SCB and SLB will continue to assume that a CCAR firm will make payments on any instrument that qualifies as additional Tier 1 or Tier 2 capital equal to the stated dividend or contractual interest or principal due in a quarter. Therefore, in effect, these payments will be enveloped within the capital reductions that become part of the firm's SCB.

  All of the changes to the stress test assumptions would be equally applicable to the supervisory stress test and the company-run stress test.

- *Static Balance Sheet.* The SB proposal would change the current CCAR assumption that a firm's balance sheet grows under stress to an assumption that the firm's balance sheet remains relatively constant.

  - Currently, the Federal Reserve projects each firm's balance sheet in the supervisory stress test using models that assume that banks will respond to increased credit demand in a stress scenario, typically by increasing lending and thereby increasing a firm's total assets. Recognizing the unrealistic nature of this assumption, the proposal would modify the models to include an assumption that firms maintain a constant level of assets over the stress test horizon.

  - Additionally, the proposal provides an assumption that a firm's leverage ratio denominator and total RWA would generally remain unchanged over the planning horizon.

— ***Income Limitation on Dividends Revised.*** The proposal also clarifies that the Federal Reserve would no longer apply heightened scrutiny to planned dividends that would exceed 30% of a CCAR firm's after-tax net income available to common shareholders, on the basis that CCAR firms must effectively pre-fund their dividends, through their SCB, for the intervening year between CCAR cycles. This limitation was not part of the stress testing regulations, and had previously only been highlighted in the Federal Reserve's instructions and guidance to CCAR firms.

— ***Yet All Capital Distributions Remain Subject to Capital Plan "Pre-Approval".*** While the proposal has the feel of the Federal Reserve carefully fitting various gears together so that the stress tests and capital adequacy regulations work in an integrated manner, the Federal Reserve has determined in the SB proposal that it still wishes to maintain ultimate control over the process by requiring any future deviation from planned capital actions to be pre-approved.

- However, the Federal Reserve does solicit comment on providing additional flexibility for a CCAR firm to exceed the capital distributions included in its capital plan based on either or both (i) the results of the supervisory stress test or request for reconsideration or (ii) earnings and capital ratios above those in its baseline projections.
- The capital plan rule would also continue to require resubmission of a CCAR firm's capital plan in the event of a material change in the firm's risk profile, financial condition, or corporate structure or if the company's own stress scenarios are no longer appropriate to its business model. Such a submission could trigger a new supervisory stress test and a recalibration of the firm's stress capital buffers.

— ***Effective Dates.*** A CCAR firm's SCB and SLB requirements would be effective on October 1 of each year and would remain in effect for a full calendar year. The proposal, if adopted, would take effect December 31, 2018 (meaning that it would be effective prior to the start of the 2019 CCAR cycle), and the SCB and SLB requirements determined in that cycle would be effective from October 1, 2019.

Transition for Certain Planned Capital Actions. As there would not be a 2018 SCB or SLB in effect, for the period July 1 to September 30, 2019, CCAR firms would be authorized to make capital distributions that do not exceed the four-quarter average of capital distributions to which the Federal Reserve indicated its non-objection for the previous capital plan cycle.

CCAR Cycle Timeline. The new CCAR cycle timeline would be:

- **February 15** – Federal Reserve publishes stress scenarios
- **April 5** – CCAR firms submit capital plans and company-run stress test results based on prior year-end data.
- **June 30** – Federal Reserve publicly discloses CCAR firms' resulting SCB and SLB, and the results of the qualitative assessment for LISCC and "large and complex" CCAR firms.
- **July 2-5** (depending on weekend/holiday) – CCAR firm may submit adjustments to its planned capital actions, after analysis of announced SCB and SLB.
- **July 15** – Deadline for submission of request for reconsideration of SCB, SLB and/or qualitative objection.
- **August 14** – Deadline for Federal Reserve response to requests for reconsideration.
- **October 1** – New SCB and SLB take effect for the next year.

— ***60-day Comment Period.*** The SB proposal's comment period (60 days from publication in the Federal Register) is not coordinated with the enhanced supplementary leverage ratio proposal ("eSLR proposal"), which has only a 30-day comment period. Given the Federal Reserve has indicated it intends the rule to take effect by December 31, 2018, it may not be inclined to respond favorably to requests to extend the comment period.

— ***Revisions to Regulatory Reports.*** The SB proposal would also modify two reports, the Consolidated Financial Statements for Holding Companies Report (FR Y-9C) and the Capital Assessments and

Stress Testing Report (FR Y-14A), to collect information regarding the SCB and SLB requirements.

- *FR Y-9C.* The proposal would add line items to collect the information necessary to monitor a firm's performance quarterly. This would include information regarding a firm's SCB and SLB, U.S. GSIB Surcharge, CCyl Buffer, Standardized CCB, Advanced CCB, eligible retained income and capital distributions. The proposed changes to the FR Y-9C reporting form are included as Appendix A to this Memorandum.
- *FR Y-14A.* The proposal would add line items to collect (generally annually) similar information necessary to evaluate planned capital actions under the firm's baseline scenario. A firm would be required to report its capital distributions on the FR Y-14A filed under its initial capital plan on April 5 and, if the firm decides to reduce its planned distributions as a result of the receipt of notice of its SCB and SLB, the firm would use the FR Y-14A to resubmit those adjusted numbers within two business days. The proposed changes to the FR Y-14A reporting form are included as Appendix B to this Memorandum.

Key Takeaways on SB Proposal

— ***The SB Proposal Would Result in Further Significant Deviations from the Basel Capital Framework in the Direction of Greater Conservatism and Complexity.***

- Partly because the floor of the SCB is set at the level of the current CCB (2.5%), as depicted in Figure 1 above, the SCB could result in a significant increase in the buffer requirements for CCAR firms in comparison to the internationally agreed buffers in the Basel capital framework, potentially placing internationally active U.S. banking organizations at a competitive disadvantage to their non-U.S. peers.

- The proposal also appears to lay the ground work for the elimination of the advanced approaches for U.S. banking organizations, which Federal Reserve Governor Quarles has publicly described as a potential simplification to the capital rules that is under consideration.[3]

    - By applying the SCB only to the calculation of required capital ratios under the standardized approaches, the SB proposal increases the probability that required capital under the standardized approaches would be higher than the advanced approaches. Under the Collins Amendment floor, a heightened standardized capital requirement would make the advanced approaches even less relevant than they are currently. Thus, the proposal implicitly suggests that the Federal Reserve does not have confidence in the Basel framework's advanced approaches to appropriately capture risk for large and complex banking organizations. Indeed, the SB proposal indicates the Federal Reserve's view that stress tests and the advanced approaches may be "duplicative," as they are both aimed at capturing tail risks. With the recent replacement of Governors and staff at the Federal Reserve, the new senior supervisors have explicitly exhibited a bias in support of stress testing.

    - The Federal Reserve's potential compromise on the advanced approaches would add further complexity to the risk-based SCB calculation. Specifically, the Federal Reserve requests comment as to whether the SCB requirement should be scaled by the ratio of a firm's standardized total RWA to its advanced approaches RWA in cases where the firm's advanced approaches capital calculations are lower than its standardized capital ratio calculations.

- The increases in effective capital requirements under the SB proposal may also be significantly amplified if the U.S. regulatory agencies were to adopt changes to the U.S. standardized approach for determining total RWA in order to implement the so-called Basel IV revisions to the Basel capital framework. Currently, the U.S. standardized approach does not include an operational risk component or a credit valuation adjustment, which are components of the Basel standardized approach that would increase total risk-weighted assets and resulting capital requirements if incorporated into the U.S. standardized capital rules.

— ***The Introduction of a New SLB Requirement Contradicts the SB Proposal's Touted "Simplification" of the Capital Rules.***

- The Tier 1 leverage ratio is generally used only by the U.S. regulatory agencies, and does not have an analog overseas where the Basel leverage ratio (i.e., the U.S. SLR) has generally been implemented. The Tier 1 leverage ratio nevertheless was simple in its design—Tier 1

[3] Governor Randal K. Quarles, "Early Observations on Improving the Effectiveness of Post-Crisis Regulation," Jan. 19, 2018.

capital divided by average total balance sheet assets (with few adjustments).

- Rather than eliminating the Tier 1 leverage ratio in favor of internationally applied standards, under the SB proposal this simple U.S.-only ratio would become a dynamic requirement, subject to the opaque methodologies used by the Federal Reserve to determine losses in the supervisory stress test.
- Furthermore, while the Federal Reserve and the Office of the Comptroller of the Currency ("OCC") ratchet back the add-on for the enhanced supplementary leverage ratio ("eSLR") for U.S. GSIBs (see Part II below), this significant increase in the more simple Tier 1 leverage ratio could become a binding capital constraint, and may therefore pose significant additional burden for non-advanced approaches CCAR firms that are not required to adhere to the SLR and/or non-GSIBs that are not subject to the eSLR.
- The Federal Reserve indicates that the SLB would "help maintain the complementary relationship" between the risk-based and leverage capital requirements. It would appear, however, that the proposal is an implicit, if not explicit, acknowledgement that the SCB actually increases capital requirements, and therefore the Tier 1 leverage ratio requirement for non-advanced approaches firms must also be increased so that it does not become too low a backstop and potentially meaningless in relation to the risk-based capital requirements for such firms.

— ***The SB Proposal Does Not Enhance the Transparency of the CCAR Process.***

- The Federal Reserve touts that the proposal is reflective of feedback it received as part of its review of the stress test regime. Although the proposal includes certain changes to the CCAR assumptions that address the review participants' concerns that the CCAR assumptions are unrealistic or contradictory, the proposal does not address the CCAR review participants' recommendations to further enhance the transparency of the Federal Reserve's supervisory stress tests.
- While the Federal Reserve released a series of proposals in December 2017 that would modestly improve transparency, the Federal Reserve's supervisory models for determining a CCAR firms' expected losses under the stress scenarios remain a "black box" and the proposal gives scant indication that the Federal Reserve intends to take further steps toward improving transparency in the near term beyond a question soliciting comment on whether the severely adverse scenarios should be subject to notice and comment.
  - As long as the Federal Reserve maintains this approach to its supervisory modeling, it will be exceedingly difficult for CCAR firms to project their stress buffers with any reasonable degree of certainty, and the proposal could thus be expected to negatively affect CCAR firm's strategic planning. This burden would be compounded by both the annual "reset" of the stress buffers and the need to apply the buffers to measure compliance daily.
  - Moreover, the lack of transparency would appear to render the reconsideration process potentially unfair, as a CCAR firm cannot be expected to challenge successfully the calibration of its stress buffers without adequate information about the Federal Reserve's supervisory models.

— ***The SB Proposal Would Introduce Significant Volatility into a Firm's Capital Requirements Creating Additional Capital Planning Challenges.***

Under the SB proposal, a CCAR firm's effective capital ratio requirements could vary widely from year to year as models, inputs and scenarios change. For CCAR firms that are transitioning their business plans or divesting business lines, legacy assets or portfolios, the stress buffers could lock them into capital requirements that far exceed their actual risk.

— ***The U.S. GSIB Surcharge and Stress Capital Buffers are Not Appropriately Calibrated to Avoid Double Counting.***

- For GSIBs, the stress buffers' volatility is compounded by the U.S. GSIB Surcharge which is also reset annually. Moreover, the U.S. GSIB Surcharge is *additive* to the SCB under the SB proposal, and therefore its calculation methodology could effectively double-count the same risks the stress capital buffers are designed to capitalize. The binding nature of the U.S. method 2 calculations for the GSIB Surcharge could exacerbate this issue.
- The Basel Committee on Banking Supervision ("Basel Committee") is expected to finalize revisions to the calibration of the internationally-agreed GSIB surcharge later this year. However, this consultation is not discussed in the SB or eSLR proposals. Accordingly, it does not appear that the Federal Reserve plans to delay finalization of the SB proposal in order to coordinate the calibration of these requirements.

PART II:
eSLR PROPOSAL

Summary

The eSLR proposal would recalibrate the leverage capital requirements for GSIBs and their IDI subsidiaries regulated by the Federal Reserve or the OCC. The recalibration would reduce the add-ons to the current SLR from their fixed levels to a dynamic measure based on the banking organization's U.S. GSIB Surcharge. This recalibration is intended by the agencies to ensure that the SLR requirements act as a backstop, rather than a binding constraint under the capital rules.

— ***Calibration and Operation.***

- *Parent-Level eSLR*. A GSIB would be subject to an SLR buffer at the parent BHC level equal to 50% of its U.S. GSIB Surcharge (which would continue to be gold-plated at the higher of method 1 and method 2). This revised eSLR buffer would continue to operate in the same manner, incrementally restricting the GSIB parent organization's ability to engage in capital distributions and discretionary bonus payments as its SLR descends progressively into the buffer zone.
- *Well-Capitalized Threshold for IDI Subsidiaries.* The revised bank-level eSLR would require each IDI subsidiary regulated by the Federal Reserve or OCC to meet an SLR equal to the sum of (i) the 3% minimum and (ii) 50% of its parent's U.S. GSIB Surcharge (the higher of method 1 and method 2) to be considered well-capitalized under the current prompt corrective action ("PCA") framework.
    - Unlike the parent-level eSLR, slipping below the well-capitalized threshold does not automatically trigger incremental restrictions on capital distributions or discretionary bonus payments.
    - However, maintaining well-capitalized status at the IDI level is essential to (among other things) maintaining the parent's status as a financial holding company as well as qualifying for expedited processing of regulatory applications and notices. For this reason, the eSLR is effectively a minimum capital requirement for the IDI subsidiaries of a GSIB.
    - The eSLR Proposal also solicits comment on whether it would be more appropriate to apply the eSLR standard to a subsidiary IDI as a capital buffer requirement (similar to the parent BHC), rather than as part of the PCA threshold for "well capitalized."

— ***Corresponding Changes to Total Loss-Absorbing Capacity Requirements.*** The total loss-absorbing capacity ("TLAC") rule applies a 2% GSIB leverage buffer in addition to the requirement that external TLAC equal at least 7.5% a GSIB's total leverage exposure. This 2% buffer parallels the current requirements under the eSLR rule. To maintain comparability with the proposed changes to the eSLR, the eSLR proposal would replace the 2% TLAC leverage buffer with a buffer set to 50% of a firm's U.S. GSIB Surcharge. The TLAC buffer operates in a manner similar to the parent-level eSLR buffer, subjecting a firm to progressively increasing restrictions on its capital distributions and discretionary bonus payments as its TLAC ratio descends into the buffer zone.

— ***Corresponding Changes to Long-Term Debt Requirements.*** The TLAC rule also establishes a minimum external long-term debt ("LTD") requirement for GSIBs equal to 4.5% of a GSIB's total leverage exposure. Accordingly, to also maintain comparability to the proposed changes to the eSLR, the eSLR proposal would modify the leverage component of the LTD requirement to be total leverage exposure multiplied by 2.5% (3% minus 0.5% to allow for balance sheet depletion) plus 50% of the U.S. GSIB Surcharge.

— ***Additional Changes to the TLAC Buffers.*** The eSLR proposal would also make certain helpful changes to the TLAC rule to ensure that LTD is calculated the same way for each of the TLAC requirements. Specifically, the eSLR proposal would amend the external TLAC risk-weighted buffer level, the TLAC leverage buffer level and the TLAC buffer level to use the same haircuts applicable to LTD that are currently used to calculate outstanding minimum required TLAC amounts.

— ***Changes to the TLAC Transition Period.*** The proposal would also clarify that newly covered IHCs would have three years to conform to most of the requirements in the TLAC rule. The proposal would additionally align the explanation of the methodology for calculating the covered IHC LTD amount with the same methodology used for GSIBs.

— ***Effective Date.*** The eSLR proposal would appear to be effective immediately upon adoption, although the revisions to the TLAC rule would not take effect until the TLAC and LTD requirements become effective on January 1, 2019.

— ***30-day Comment Period.*** The eSLR proposal has only a 30-day comment period, which appears aimed at allowing the Federal Reserve and the OCC to finalize the changes quickly, appears to indicate that the Federal Reserve and the OCC do not believe the eSLR proposal to be controversial (as it appears to be generally burden-reducing), and may be designed to demonstrate to Congress that the provisions in the pending regulatory reform legislation relating to the leverage ratio denominator should be unnecessary.

Key Takeaways on eSLR Proposal

— ***The Interplay between the Recalibrated eSLR and the SLB is Unclear.*** While the recalibrated eSLR will be welcomed by GSIBs, the SB proposal's introduction of a new SLB for the U.S. Tier 1 leverage ratio calls into question the scope of the relief touted in the eSLR proposal. While the SLB is billed as a backstop to the risk-based SCB, the volatility and complexity inherent in the SLB make it a far less predictable requirement. In addition, the SLB has no fixed upper limit. Accordingly, it remains to be seen whether the SLB could someday increase effective leverage requirements for particular GSIBs beyond their current eSLR due to idiosyncrasies of a firm's portfolios and their associated loss projections under the Federal Reserve's supervisory models.

— ***Legislative Initiatives Could Trigger a Recalibration of the eSLR.*** The Federal Reserve and the OCC do not explicitly describe the proposal as an alternative to the leverage-related provisions of the "Economic Growth, Regulatory Relief, and Consumer Protection Act" passed in March by the Senate, which would allow GSIBs that are primarily custody banks to exclude from the SLR denominator funds on deposit with certain central banks. However, (i) the agencies noted that the eSLR proposal assumes the current denominator calculations and "significant changes to either [the SLR denominator or the definition of Tier 1 capital] would likely necessitate reconsideration of the proposed recalibration as the proposal is not intended to materially change the aggregate amount of capital in the banking system," and (ii) the agencies requested comment on the costs and benefits of excluding central bank deposits from the denominator.

— ***The Impact of the Basel Committee's Proposed Revisions to the GSIB Assessment Methodology is Unclear.*** The eSLR proposal's recalibration of the eSLR would generally result in a decline in a GSIB's effective leverage requirements. However, because the proposal would link the eSLR to the U.S. GSIB Surcharge going forward and, to the extent the U.S. agencies revise the calibration of the U.S. GSIB Surcharge to implement any changes to the internationally agreed GSIB surcharge later this year, the eSLR would be subject to potential modifications or even increase. However, neither this Basel consultation nor the potential impact of future changes to the U.S. GSIB Surcharge rule is referenced in the SB or eSLR proposals.

— ***Potential Modification of SLR TLAC Requirement Would Only Benefit U.S. GSIBs.*** The eSLR proposal solicited comment on whether the Federal Reserve should also modify the requirement that a GSIB maintain external loss-absorbing capacity of 7.5% of the GSIB's total leverage exposure. This could include aligning this requirement more closely with international standards, with the covered IHC standard or with the dynamic U.S. GSIB Surcharge. In this regard, the eSLR proposal appears focused exclusively on potential TLAC relief for U.S. GSIBs. There is no discussion of recalibrating internal TLAC and LTD standards that apply to covered IHCs of non-U.S. GSIBs.

— ***The Federal Deposit Insurance Corporation Did Not Join the eSLR Proposal.*** The Federal Deposit Insurance Corporation ("FDIC") has not traditionally shared the view that the SLR and Tier 1 leverage ratios should function primarily as a backstop to risk-based capital requirements. While the FDIC's conspicuous absence from this joint rulemaking suggests the FDIC may not be supportive of regulatory relief efforts that lower leverage requirements for IDIs or their holding companies, the practical impact of its nonparticipation is not significant. Only two of the eight U.S. GSIBs have subsidiary IDIs that are primarily regulated by the FDIC (Wells Fargo and BNY Mellon) and these institutions are comparatively small relative to these GSIBs' lead national or state member banks.

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Appendix A
Proposed Changes to
FR Y -9C (cover and changed pages only)

Board of Governors of the Federal Reserve System

Consolidated Financial Statements for Holding Companies—FR Y-9C

Report at the close of business as of the last calendar day of the quarter

This Report is required by law: Section 5(c) of the BHC Act (12 U.S.C. § 1844(c)), section 10 of Home Owners' Loan Act (HOLA) (12 U.S.C. § 1467a(b)), section 618 of the Dodd-Frank Act (12 U.S.C. § 1850a(c)(1)), section 165 of the Dodd-Frank Act (12 U.S.C. § 5365), and section 252.153(b)(2) of Regulation YY (12 CFR 252.153(b)(2)).

This report form is to be filed by holding companies with total consolidated assets of $1 billion or more. In addition, holding companies meeting certain criteria must file this report (FR Y-9C) regardless of size. See page 1 of the general instructions for further information. However, when such holding companies own or control, or are owned or controlled by, other holding companies, only the top-tier holding company must file this report for the consolidated holding company organization. The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

NOTE: Each holding company's board of directors and senior management are responsible for establishing and maintaining an effective system of internal control, including controls over the Consolidated Financial Statements for Holding Companies. The Consolidated Financial Statements for Holding Companies is to be prepared in accordance with instructions provided by the Federal Reserve System. The Consolidated Financial Statements for Holding Companies must be signed and attested by the Chief Financial Officer (CFO) of the reporting holding company (or by the individual performing this equivalent function).

I, the undersigned CFO (or equivalent) of the named holding company, attest that the Consolidated Financial Statements for Holding Companies (including the supporting schedules) for this report date have been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

Printed Name of Chief Financial Officer (or Equivalent) (BHCK C490)

Signature of Chief Financial Officer (or Equivalent) (BHCK H321)

Date of Signature (MM/DD/YYYY) (BHTX J196)

Date of Report: ____________
Month / Day / Year (BHCK 9999)

Legal Title of Holding Company (RSSD 9017)

(Mailing Address of the Holding Company) Street / PO Box (RSSD 9110)

City (RSSD 9130) State (RSSD 9200) Zip Code (RSSD 9220)

Person to whom questions about this report should be directed:

Name / Title (BHTX 8901)

Area Code / Phone Number (BHTX 8902)

Area Code / FAX Number (BHTX 9116)

E-mail Address of Contact (BHTX 4086)

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________ S.F. ____________

Holding companies must maintain in their files a manually signed and attested printout of the data submitted.

Public reporting burden for this information collection is estimated to vary from 5 to 1,250 hours per response, with an average of 47.11 hours per response for non-Advanced Approaches HCs and 48.36 hours for Advanced Approaches HCs, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Comments regarding this burden estimate or any other aspect of this information collection, including suggestions for reducing the burden, may be sent to Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0128), Washington, DC 20503.

Schedule HC-R—Continued

Part I.—Continued

Dollar Amounts in Thousands	BHCX	Amount	
Total Assets for the Leverage Ratio			
36. Average total consolidated assets	3368		36.
37. LESS: Deductions from common equity tier 1 capital and additional tier 1 capital (sum of items 6, 7, 8, 10.b, 11, 13 through 17, and certain elements of item 24 - see instructions)	BHCA P875		37.
38. LESS: Other deductions from (additions to) assets for leverage ratio purposes	B596		38.
39. **Total assets for the leverage ratio** (item 36 minus items 37 and 38)	A224		39.
Total Risk-Weighted Assets			
40. a. **Total risk-weighted assets** (from Schedule HC-R, Part II item 31)	A223		40.a.
b. (Advanced approaches holding companies that exit parallel run only): Total risk-weighted assets using advanced approaches rule (from FFIEC 101 Schedule A, item 60)	BHCW A223		40.b.

	Column A		Column B		
	BHCA	Percentage	BHCW	Percentage	
Risk-Based Capital Ratios*					
41. Common equity tier 1 capital ratio (Column A: item 19 divided by item 40.a) (Advanced approaches holding companies that exit parallel run only: Column B: item 19 divided by item 40.b)	P793		P793		41.
42. Tier 1 capital ratio (Column A: item 26 divided by item 40.a) (Advanced approaches holding companies that exit parallel run only: Column B: item 26 divided by item 40.b)	7206		7206		42.
43. Total capital ratio (Column A: item 35.a divided by item 40.a) (Advanced approaches holding companies that exit parallel run only: Column B: item 35.b divided by item 40.b)	7205		7205		43.

	BHCA	Percentage	
Leverage Capital Ratios*			
44. Tier 1 leverage ratio (item 26 divided by item 39)	7204		44.
45. Advanced approaches holding companies only: Supplementary leverage ratio (From FFIEC 101 Schedule A, Table 2, item 2.22)	H036		45.

	BHCA	Percentage	
Capital Buffer for all holding companies not subject to the capital plan rule (items 46-48)			
46. Institution-specific capital buffer necessary to avoid limitations on distributions and discretionary bonus payments:			
a. Capital conservation buffer	H311		46.a.
b. (Advanced approaches holding companies that exit parallel run only): Total applicable capital buffer	H312		46.b.

Dollar Amounts in Thousands	BHCA	Amount	
Institutions must complete items 47 and 48 if the amount in item 46.a is less than or equal to the applicable minimum capital conservation buffer:			
47. Eligible retained income	H313		47.
48. Distributions and discretionary bonus payments during the quarter	H314		48.

*** Report each ratio and buffer as a percentage, rounded to four decimal places, e.g., 12.3456.**

Schedule HC-R—Continued

Part I.—Continued

Risk-Based Capital Buffer for holding companies subject to the Board's capital plan rule only:

49. Standardized approach capital conservation buffer requirement (sum of items a through c) 49.
    a. of which: Stress capital buffer requirement 49.a
    b. of which: G-SIB surcharge (if applicable) 49.b
    c. of which: Countercyclical capital buffer amount (if applicable) 49.c
50. Standardized approach capital conservation buffer 50.
51. Advanced approaches capital conservation buffer requirement (sum of items a through c) 51.
    a. of which: 2.5 percent 51.a
    b. of which: G-SIB surcharge (if applicable) 51.b
    c. of which: Countercyclical capital buffer amount (if applicable) 51.c
52. Advanced approaches capital conservation buffer 52.

Leverage Capital Buffer:

53. Stress leverage buffer requirement 53.
54. Leverage buffer 54.
55. Supplementary leverage ratio (SLR) buffer requirement (if applicable) 55.
56. Supplementary leverage ratio (SLR) buffer (if applicable) 56.

Maximum payout ratios and amounts for holding companies subject to the capital plan rule:

57. Eligible retained income 57.
58. Maximum payout ratio 58.
59. Maximum payout amount 59.
60. Distributions and discretionary bonus payments during the quarter 60.

FR Y-14A Schedule A - Summary

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Appendix B -
Proposed Changes to FR Y-14A
(cover and changed pages only)

Summary Submission Cover Sheet

All BHCs and IHCs are expected to complete a version of the Summary template for each required scenario - *BHC Baseline, BHC Stress, Supervisory Baseline, Supervisory Adverse, and Supervisory Severely Adverse* - and additional scenarios that are named accordingly.

BHCs and IHCs should complete all relevant cells in the corresponding worksheets, including this cover page. BHCs and IHCs should not complete any shaded cells.
Please ensure that the data submitted in this Summary Template match what was submitted in other data templates.
Please do not change the structure of this workbook.
Please note that unlike FR Y-9C reporting, all actual and projected income statement figures should be reported on a quarterly basis, and not on a cumulative basis.

Institution Name:	
RSSD ID:	
Source:	BHC or IHC
Submission Date (MM/DD/YYYY):	
When Received:	

Please indicate the scenario associated with this submission using the following drop-down menu:

Briefly describe the scenario below:

FR Y-14A Schedule A.1.d. - 1. Capital - CCAR and 2. Capital - DFAST

Item			As of Date		Projected in $Millions									Sums in $Millions		
					PQ 1	PQ 2	PQ 3	PQ 4	PQ 5	PQ 6	PQ 7	PQ 8	PQ 9	PQ 2 - PQ 5	PQ 6 - PQ 9	9-Quarter
117	Issuance of common stock for employee compensation	CASDQ283		CPSDQ283												
118	Other issuance of common stock	CASDQ284		CPSDQ284												
119	Total issuance of common stock	CASDQ285	-	CPSDQ285	-	-	-	-	-	-	-	-	-			
120	Share repurchases to offset issuance for employee compensation	CASDQ286		CPSDQ286												
121	Other share repurchase	CASDQ287		CPSDQ287												
122	Total share repurchases	CASDQ288	-	CPSDQ288	-	-	-	-	-	-	-	-	-			
	Regulatory capital buffer information															
123	Standardized approach capital conservation buffer requirement	-	-	-	-	-	-	-	-	-	-	-	-			
124	Stress capital buffer requirement															
125	GSIB surcharge (if applicable)															
126	Countercyclical capital buffer amount (if applicable)															
127	Standardized approach capital conservation buffer															
128	Advanced approaches capital conservation buffer requirement	-	-	-	-	-	-	-	-	-	-	-	-			
129	2.5 percent															
130	GSIB surcharge (if applicable)															
131	Countercyclical capital buffer amount (if applicable)															
132	Advanced approaches capital conservation buffer															
133	Stress leverage buffer requirement															
134	Leverage buffer															
135	Supplementary leverage ratio (SLR) buffer requirement (if applicable)															
136	SLR buffer (if applicable)															
137	Eligible retained income															
138	Maximum payout ratio															
139	Maximum payout amount	-	-	-	-	-	-	-	-	-	-	-	-			
140	Distributions during the quarter															
	Supplemental Information on Trust Preferred Securities Subject to Phase-Out from Tier 1 Capital															
141	Outstanding trust preferred securities	CASKC699		CPSKC699												
142	Trust preferred securities included in Item 49	CASDQ289		CPSDQ289												

Memoranda

*Please break out and explain below other adjustments to equity capital: CASDQ290

143

**The carryback period is the prior two calendar tax years plus any current taxes paid in the year-to-date period. Please provide disaggregated data for item 109 as follows:

144	Taxes paid during the fiscal year ended two years ago	CASDQ292
145	Taxes paid during the fiscal year ended one year ago	CASDQ293
146	Taxes paid through the as-of date of the current fiscal year	CASDQ294

***Please reconcile the Supplemental Capital Action and HI-A projections (i.e., allocate the capital actions among the HI-A buckets): CASDQ295

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