

FEDERAL RESERVE SYSTEM

12 CFR Parts 217, 225, 238 and 252

Regulations Q, Y, LL, and YY;

Docket No. [•]; RIN [•]

Prudential Standards for Large Foreign Banking Organizations; Revisions to Proposed Prudential Standards for Large Domestic Bank Holding Companies and Savings and Loan Holding Companies

AGENCY: Board of Governors of the Federal Reserve System (Board).

ACTION: Notice of proposed rulemaking with request for public comment.

SUMMARY: The Board is requesting comment on a proposed rule that would revise the framework for applying the enhanced prudential standards applicable to foreign banking organizations under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act. The proposal would establish categories that would be used to tailor the stringency of enhanced prudential standards based on the risk profile of a foreign banking organization's operations in the United States. The proposal also would amend certain enhanced prudential standards, including standards relating to liquidity, risk management, stress testing, and single-counterparty credit limits, and would make corresponding changes to reporting forms. The proposal would make clarifying revisions and technical changes to the Board's October 31, 2018, proposal for large U.S. bank holding companies and certain savings and loan holding companies relating to the Board's internal liquidity stress testing requirements and GSIB surcharge rule. Separately, the Board, the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) (together, the agencies) are requesting comment on a proposal to revise the applicability of the agencies' capital and liquidity requirements for foreign banking

organizations based on the same categories, and the Board is requesting comment on whether it should impose standardized liquidity requirements on the U.S. branch and agency network of a foreign banking organization, as well as possible approaches for doing so. In addition, the Board and the FDIC are separately requesting comment on a proposal to revise the applicability of the resolution planning requirements applicable to large U.S. banking organizations and foreign banking organizations, using a category approach that is broadly consistent with the one set forth in this proposal.

DATES: Comments on the proposal, including elements of the proposal that would be applied to domestic banking organizations and foreign banking organizations, and other clarifying revisions and technical changes discussed in section II.G of the Supplementary Information Section, must be received by June 21, 2019.

ADDRESSES: You may submit comments, identified by **Docket No. R-[•]** and **RIN [•]**, by any of the following methods:

- **Agency Web Site:** <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <https://www.federalreserve.gov/apps/foia/proposedregs.aspx>.
- **E-mail:** regs.comments@federalreserve.gov. Include docket number and RIN in the subject line of the message.
- **Fax:** (202) 452-3819 or (202) 452-3102.
- **Mail:** Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.

All public comments are available from the Board's Web site at

<http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, unless modified for technical reasons or to remove sensitive personally identifiable information at the

commenter's request. Public comments may also be viewed electronically or in paper form in Room 146, 1709 New York Avenue, Washington, DC 20006 between 9:00 a.m. and 5:00 p.m. on weekdays.

FOR FURTHER INFORMATION CONTACT:

Constance Horsley, Deputy Associate Director, (202) 452-5239; Elizabeth MacDonald, Manager, (202) 475-6316; Brian Chernoff, Lead Financial Institution Policy Analyst, (202) 452-2952; Mark Handzlik, Lead Financial Institution Policy Analyst, (202) 475-6636, J. Kevin Littler, Lead Financial Institution Policy Analyst, (202) 475-6677; Matthew McQueeney, Senior Financial Institution Policy Analyst II, (202) 452-2942; or Christopher Powell, Senior Financial Policy Analyst II, (202) 452-3442, Division of Banking Supervision and Regulation; or Laurie Schaffer, Associate General Counsel, (202) 452-2272; Benjamin McDonough, Assistant General Counsel (202) 452-2036; Asad Kudiya, Counsel, (202) 475-6358; Jason Shafer, Counsel (202) 728-5811; Mary Watkins, Senior Attorney, (202) 452-3722; or Alyssa O'Connor, Attorney, (202) 452-3886, Legal Division. Board of Governors of the Federal Reserve System, 20th and C Streets NW, Washington, DC 20551.

SUPPLEMENTARY INFORMATION:

Table of Contents

- I. Introduction
 - A. Background
 - B. Considerations in tailoring enhanced prudential standards for foreign banking organizations
- II. Overview of the proposal
 - A. Scope of application

- B. Scoping criteria for proposed categories
 - 1. Size
 - 2. Other risk-based indicators
 - a. Cross-jurisdictional activity
 - b. Nonbank assets
 - c. Off-balance sheet exposure
 - d. Weighted short-term wholesale funding
 - 3. Alternative scoping criteria
 - 4. Determination of applicable category of standards
 - C. Enhanced prudential standards for foreign banking organizations
 - 1. Category II standards
 - 2. Category III standards
 - 3. Category IV standards
 - D. Single-counterparty credit limits
 - E. Risk-management and risk committee requirements
 - F. Enhanced prudential standards for foreign banking organizations with a smaller U.S. presence
 - G. Technical changes to the regulatory framework for foreign banking organizations and domestic banking organizations
- III. Proposed reporting changes
 - IV. Impact assessment
 - A. Liquidity
 - B. Capital planning and stress testing

- C. Single-counterparty credit limits
- V. Administrative law matters
 - A. Solicitation of comments and use of plain language
 - B. Paperwork Reduction Act analysis
 - C. Regulatory Flexibility Act analysis

I. **Introduction**

The Board of Governors of the Federal Reserve System (Board) is requesting comment on a proposed rule (the proposal) that would revise the framework for applying enhanced prudential standards to foreign banking organizations with total consolidated assets of \$100 billion or more.¹ Specifically, the proposal would revise the thresholds for application of enhanced prudential standards to foreign banking organizations and tailor the stringency of those standards based on the U.S. risk profiles of these firms. The proposal generally would align with the framework the Board proposed for large U.S. bank holding companies and certain savings and loan holding companies on October 31, 2018 (the domestic proposal).² The proposal also is

¹ Foreign banking organization means a foreign bank that operates a branch, agency, or commercial lending company subsidiary in the United States; controls a bank in the United States; or controls an Edge corporation acquired after March 5, 1987; and any company of which the foreign bank is a subsidiary. *See* 12 CFR 211.21(o); 12 CFR 252.2(k). An agency is place of business of a foreign bank, located in any state, at which credit balances are maintained, checks are paid, money is lent, or, to the extent not prohibited by state or federal law, deposits are accepted from a person or entity that is not a citizen or resident of the United States. A branch is a place of business of a foreign bank, located in any state, at which deposits are received and that is not an agency. *See* 12 CFR 211.21(b) and (e).

² Prudential Standards for Large Bank Holding Companies and Savings and Loan Holding Companies, 83 FR 61408 (November 29, 2018).

consistent with the Board's ongoing efforts to assess the impact of its regulations while exploring alternatives that achieve regulatory objectives and improve upon the regulatory framework's simplicity, transparency, and efficiency.

Under the proposal, a foreign banking organization with \$100 billion or more in total consolidated assets and a significant U.S. presence would be subject to Category II, Category III, or Category IV³ enhanced prudential standards depending on the size of its U.S. operations and the materiality of the same risk-based indicators that were included in the domestic proposal: cross-jurisdictional activity, nonbank assets, off-balance sheet exposure, and weighted short-term wholesale funding, as discussed below.⁴ Foreign banking organizations with \$100 billion or more in total consolidated assets that do not meet the thresholds for application of Category II, Category III, or Category IV standards due to their limited U.S. presence would be subject to requirements that largely defer to compliance with similar home-country standards at the consolidated level, with the exception of certain risk-management standards.

A. Background

The financial crisis revealed significant weaknesses in resiliency and risk management in the financial sector, and demonstrated how the failure or distress of large, leveraged, and interconnected financial companies, including foreign banking organizations, could pose a threat to U.S. financial stability. Certain foreign banking organizations with the largest, most complex

³ Category I standards would apply only to U.S. global systemically important bank holding companies. *See infra* note 28.

⁴ As explained further in this Supplementary Information section, cross-jurisdictional activity would be measured (a) excluding intercompany liabilities; and (b) would allow recognition of financial collateral in calculating intercompany claims.

U.S. subsidiary operations maintained insufficient capital in the United States and were not appropriately positioned to support losses among those operations. Accordingly, these firms were forced to significantly reduce assets in the United States to address capital deficiencies. In addition, the funding models of many foreign banking organizations presented unique vulnerabilities, as they relied on dollar-denominated short-term wholesale funding obtained in the United States to fund their global investment activities. Disruptions in the U.S. wholesale funding market limited the ability of these firms to satisfy liquidity demands, as some of them lacked adequate risk-management practices to account for the liquidity stresses of individual products or business lines, had not adequately accounted for draws from off-balance sheet exposures, or had not adequately planned for a disruption in funding sources. As a result, many experienced significant distress and required unprecedented liquidity support from U.S. and home-country authorities.⁵ For example, analysis using Federal Reserve Board data on Term Auction Facility usage in 2008 and 2009 finds that approximately 40 percent of foreign banking organizations borrowed from the facility during the financial crisis. Furthermore, on average, U.S. branches of foreign banking organizations that used the facility funded approximately 10 percent of their assets through the Term Auction Facility during this period.

Section 165 of the Dodd-Frank Act was enacted in response to the financial crisis and directed the Board to establish enhanced prudential standards for foreign banking organizations

⁵ See, e.g. Goldberg and Skeie, 2011, “Why did U.S. branches of foreign banks borrow at the discount window during the crisis?”, Liberty Street Economics Blog, Federal Reserve Bank of New York.

with total consolidated assets of \$50 billion or more.⁶ These standards must include enhanced risk-based capital and leverage requirements, liquidity requirements, risk-management requirements, and stress test requirements, among others.⁷ These standards also must increase in stringency based on certain statutory considerations in section 165.⁸ In applying section 165 to foreign banking organizations, the Dodd-Frank Act also directs the Board to give due regard to the principles of national treatment and equality of competitive opportunity and to take into account the extent to which a foreign banking organization is subject, on a consolidated basis, to home-country standards that are comparable to those applied to financial companies in the United States.⁹

The Board's enhanced prudential standards implement section 165 of the Dodd-Frank Act and strengthen capital, liquidity, risk-management, and other prudential standards for banking organizations.¹⁰ In applying section 165 to foreign banking organizations, the Board has tailored enhanced prudential standards based, in part, on the size and complexity of a foreign banking organization's activities in the United States. The standards applicable to foreign banking organizations with a more limited U.S. presence largely rely on compliance with comparable home-country standards applied at the consolidated foreign parent level. In

⁶ 12 U.S.C. 5365.

⁷ In addition, the Dodd-Frank Act authorizes the Board to establish additional enhanced prudential standards relating to contingent capital, public disclosures, short-term debt limits, and such other prudential standards as the Board determines appropriate.

⁸ *See* 12 U.S.C. 5365(a)(1), (b)(3).

⁹ 12 U.S.C. 5365(b)(2).

¹⁰ 12 CFR part 252.

comparison, a foreign banking organization with a significant U.S. presence is subject to enhanced prudential standards and supervisory expectations that apply to its combined U.S. operations.¹¹ A foreign banking organization with U.S. non-branch assets of \$50 billion or more¹² also must form a U.S. intermediate holding company¹³ that must calculate risk-based and leverage capital ratios, create a risk-management structure (including for the management of liquidity risk), and engage in stress testing in a manner comparable to a similarly situated U.S. bank holding company.¹⁴

The presence of foreign banking organizations in the United States brings competitive and countercyclical benefits to U.S. markets, as these firms serve as an important source of credit to U.S. households and businesses and contribute materially to the strength and liquidity of U.S. financial markets. Post-crisis financial regulations have resulted in substantial gains in resiliency for individual firms and the financial system as a whole. Foreign banking organizations' U.S. operations have become less fragmented and maintain more capital and liquidity in the United States.¹⁵ In addition, the U.S. operations of foreign banking organizations subject to enhanced

¹¹ The combined U.S. operations of a foreign banking organization include any U.S. subsidiaries (including any U.S. intermediate holding company, which would reflect on a consolidated basis any U.S. depository institution subsidiaries thereof), U.S. branches, and U.S. agencies.

¹² U.S. non-branch assets are defined in Regulation YY. *See* 12 CFR 252.152(b)(2).

¹³ Risk-management and liquidity standards, as well as single-counterparty credit limits, apply to a foreign banking organization at the level of its combined U.S. operations. Capital standards apply to a U.S. intermediate holding company, but they do not apply to U.S. branches and agencies, which are not required to maintain regulatory capital separately from the foreign banks of which they are a part.

¹⁴ 12 CFR 252.153 *et seq.*

¹⁵ Sources: Consolidated Financial Statements for Holding Companies (FR Y-9C) and Complex Institution Liquidity Monitoring Report (FR 2052a).

prudential standards generally have made significant improvements in risk identification and management, data infrastructure, and controls. These improvements have helped to build a more resilient financial system that is better positioned to provide American consumers, businesses, and communities access to the credit they need, even under challenging economic conditions.

The U.S. operations of foreign banking organizations vary in their complexity and systemic significance, and can present significant risks to U.S. financial stability. As shown in the financial crisis, disproportionate use of dollar-denominated short-term wholesale funding relative to more stable, insured deposits presents significant risks to U.S. financial stability and the safety and soundness of an individual firm; some foreign banking organizations remain heavily reliant on this source of funding. Among all foreign banking organizations with combined U.S. assets¹⁶ of \$100 billion or more, short-term wholesale funding is equivalent to approximately 30 percent of their U.S. assets, ranging from 10 percent to as much as 60 percent.¹⁷ U.S. branches of these firms tend to have particularly high reliance on short-term wholesale funding because they generally lack access to retail deposits.

In addition, some foreign banking organizations engage in complex activities through broker-dealers in the United States, which are highly interconnected to U.S. and foreign financial intermediaries. Among foreign banking organizations with combined U.S. assets of \$100 billion or more, U.S. broker-dealer subsidiaries comprise approximately 25 percent of these firms' U.S.

¹⁶ *See, infra* note 18.

¹⁷ Source: FR 2052a, as of June 30, 2018.

assets in aggregate, with a range of zero to 50 percent at individual firms.¹⁸ Overall, total nonbank assets, including broker-dealer subsidiaries, in aggregate comprise approximately 25 percent of the combined U.S. assets of these firms, with a range of zero to 70 percent at individual firms.¹⁹ The crisis experience demonstrated that nonbank activities could exacerbate the effects of a banking organization's distress or failure, due to the business and operational complexities associated with these activities.

The U.S. operations of some foreign banking organizations also exhibit greater complexity and face risks due to significant levels of cross-jurisdictional activity and off-balance sheet exposure. Among foreign banking organizations with combined U.S. assets of \$100 billion or more, cross-jurisdictional activity (excluding cross-jurisdictional liabilities to non-U.S. affiliates)²⁰ is equivalent to approximately 30 percent of those assets, ranging from 13 to as much as 81 percent, whereas off-balance sheet exposure is equivalent to approximately 30 percent of those assets, ranging from 10 to as much as 51 percent.²¹ As discussed below, both cross-jurisdictional activity and off-balance sheet exposure provide a measure of a banking organization's interconnectedness, as well as other risks.

¹⁸ Sources: Parent Company Only Financial Statements for Large Holding Companies (FR Y- 9LP), The Capital and Asset Report for Foreign Banking Organizations (FR Y-7Q), and the Securities Exchange Commission's Financial and Operational Combined Uniform Single Report, as of September 30, 2018.

¹⁹ *Id.*

²⁰ See section II.B.2.a of this Supplementary Information section. In addition, while the proposal would allow recognition of financial collateral in calculating intercompany claims, recognition of financial collateral is not reflected in this analysis.

²¹ This analysis was based on data compiled from the FR Y-7Q, as well as information collected from certain foreign banking organizations supervised by the Board as of September 30, 2018.

The Board is proposing to modify the enhanced prudential standards framework applicable to foreign banking organizations in a manner commensurate with the risks such organizations pose to U.S. financial stability, based on the risk-based indicators set forth in this proposal.

B. Considerations in tailoring enhanced prudential standards for foreign banking organizations

The Board conducts periodic reviews of its rules to update, reduce unnecessary costs associated with, and streamline regulatory requirements based on its supervisory experience and consistent with the effective implementation of its statutory responsibilities. These efforts include assessing the impact of regulations as well as exploring alternative approaches that achieve regulatory objectives while improving the regulatory framework's simplicity, transparency, and efficiency. The proposal is the result of this practice, and reflects amendments to section 165 of the Dodd-Frank Act under the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA).²²

The proposal would raise the asset size threshold for the application of enhanced prudential standards to foreign banking organizations, consistent with EGRRCPA, and is designed to more precisely address the risks presented by foreign banking organizations to U.S. financial stability in a manner that broadly aligns with the domestic proposal. The proposal builds upon the Board's practice of tailoring enhanced prudential standards applied to foreign banking organizations based on the risk profile of their combined U.S. operations. By applying standards that are broadly consistent with the standards that would apply to U.S. bank holding

²² Pub. L. No. 115-174, 132 Stat. 1296 (2018).

companies of a similar risk profile under the domestic proposal, this proposal would take into account the principles of national treatment and equality of competitive opportunity between foreign and domestic banking organizations.

The proposal would distinguish the manner in which a foreign banking organization determines its applicable category of capital standards as compared to its applicable category for all other standards. For risk-management standards, liquidity standards, and single-counterparty credit limits, a foreign banking organization would determine the applicable category based on the risk profile of its combined U.S. operations. This approach is consistent with the current enhanced prudential standards framework and recognizes that certain risks are more appropriately regulated across the combined U.S. operations of a foreign banking organization to prevent or mitigate risks to U.S. financial stability. For example, funding vulnerabilities at a U.S. branch can expose a foreign banking organization's other U.S. operations to heightened liquidity risk because their customers and counterparties may not distinguish liquidity stress at one component of the U.S. operations from the liquidity position of another part of the U.S. operations. As a result, liquidity stress among the combined U.S. operations of a foreign banking organization can manifest rapidly and simultaneously, regardless of the source of that risk. Similarly, single-counterparty credit limits that are based on and apply only to one aspect of a foreign banking organization's operations in the United States can create an incentive to concentrate risk elsewhere in the organization's U.S. operations.

More generally, the tendency of market participants to take a more holistic view of the financial strength and resilience of a foreign banking organization's U.S. operations underscores the importance of applying enhanced prudential standards comprehensively across those operations. Accordingly, consistent with the current enhanced prudential standards framework,

the proposal would apply risk-management and liquidity standards, as well as single-counterparty credit limits, to a foreign banking organization at the level of its combined U.S. operations.

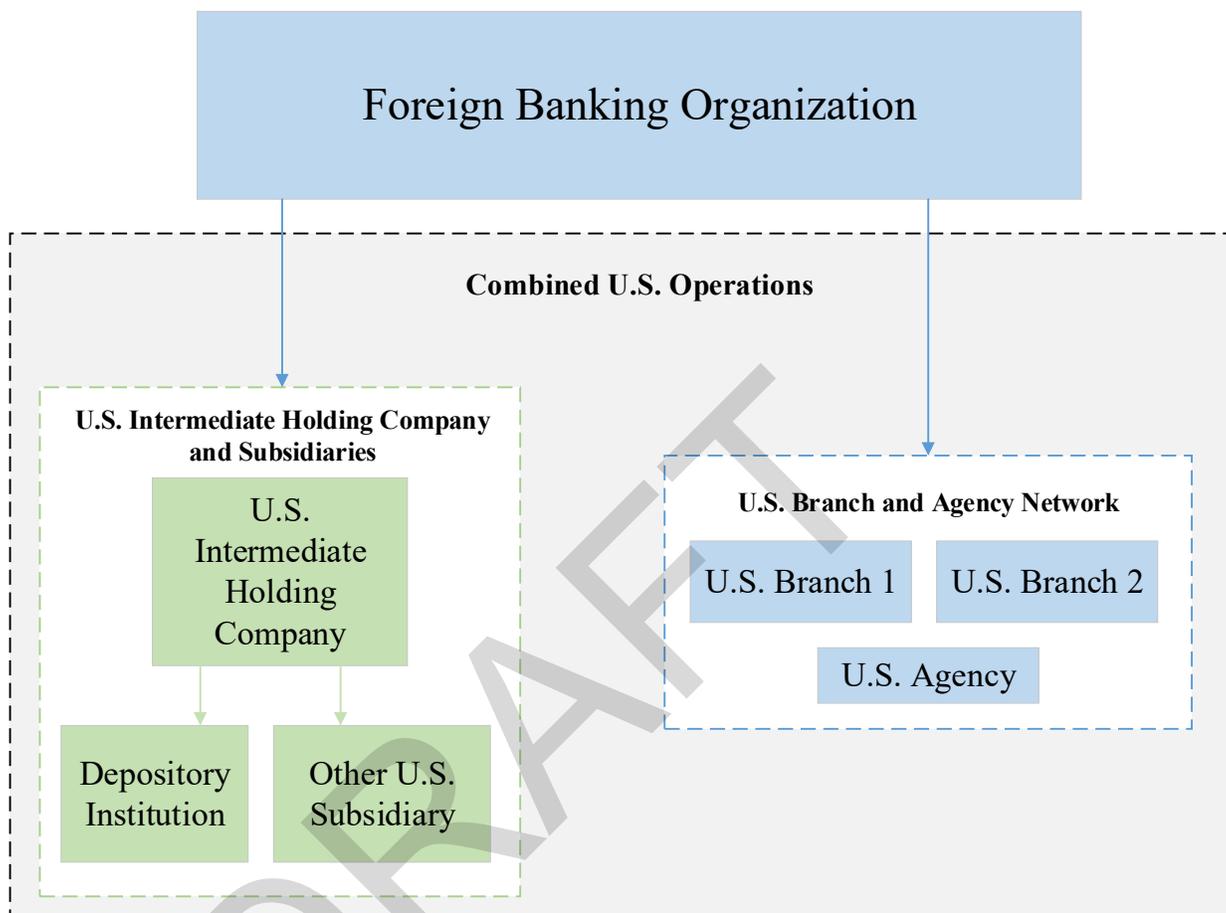
For capital standards, a foreign banking organization would determine the applicable category based on the risk profile of its U.S. intermediate holding company, if any,²³ and not the combined U.S. operations of the foreign banking organization.²⁴ Capital standards under the proposed categories would apply to a foreign banking organization at the U.S. intermediate holding company level. This approach is consistent with the current enhanced prudential standards framework and recognizes that U.S. branches and agencies do not maintain regulatory capital separately from their foreign parents.

The visual below provides a simplified illustration of a how a foreign banking organization may structure its U.S. operations, and depicts the portion of those operations that would comprise its combined U.S. operations for purposes of the proposal.

²³ A foreign banking organization with no U.S. intermediate holding company would be subject to requirements that defer largely to compliance with home-country capital standards. Any U.S. bank holding company or depository institution subsidiary of the foreign banking organization would continue to be subject to the generally applicable capital requirements under the agencies' regulatory capital rule.

²⁴ See *supra* note 9.

Illustrative Structure of a Foreign Banking Organization's U.S. Operations



II. Overview of the proposal

The proposal would revise the framework for determining the applicability of enhanced prudential standards for foreign banking organizations with total consolidated assets of \$100 billion or more, based on the risk profile of their U.S. operations. The proposal broadly

aligns with the framework set forth in the domestic proposal,²⁵ with modifications, for example, to address the fact that foreign banking organizations may operate in the United States directly through U.S. branches and agencies or through subsidiaries. Specifically, the proposal would establish three categories of standards to address risk-management, liquidity, and single-counterparty credit limits for foreign banking organizations with \$100 billion or more in total consolidated assets and a significant U.S. presence (i.e., combined U.S. assets of \$100 billion or more). The proposal would also establish three categories of capital standards for a U.S. intermediate holding company with total consolidated assets of \$100 billion or more, which would apply only to a U.S. intermediate holding company. The requirements under each category would be based on the risk profile of a foreign banking organization's combined U.S. operations or U.S. intermediate holding company, as measured by their size and the materiality of the following risk-based indicators: cross-jurisdictional activity, nonbank assets, off-balance sheet exposure, and weighted short-term wholesale funding. For foreign banking organizations with \$100 billion or more in total consolidated assets and a limited U.S. presence (i.e., less than \$100 billion in combined U.S. assets), the proposal would not apply the category framework, and instead would continue to rely largely on compliance with similar home-country standards at the consolidated, foreign-parent level. In addition, foreign banking organizations with \$50 billion or more in total consolidated assets would continue to be required to meet U.S. risk management requirements.

²⁵ See also Proposed Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements, 83 FR 66024 (December 21, 2018) (domestic interagency proposal).

The proposal also would implement reporting requirements that are necessary to accommodate the use of the risk-based indicators for the combined U.S. operations of a foreign banking organization, and make certain technical amendments to the Board's enhanced prudential standards framework related to the organization of the framework, certain clarifying revisions, and the removal of outdated transitional provisions.

Concurrently with this proposal, the agencies separately are seeking comment on a proposal that would amend the agencies' capital and liquidity requirements to introduce consistent categories for tailoring those standards based on the risk profile of foreign banking organizations' U.S. operations (the interagency foreign banking organization capital and liquidity proposal). As part of that proposal, the Board is requesting comment on, but is not proposing, whether it should impose standardized liquidity requirements to address the liquidity risks of the U.S. branches and agencies of a foreign banking organization with significant U.S. operations, as well as potential approaches to do so. In addition, the Board, together with the FDIC, separately is seeking comment on a proposal that would address the applicability of resolution planning requirements to large U.S. banking organizations and foreign banking organizations based on a category approach that is broadly consistent with the categories set forth in this proposal.

A. Scope of application

Consistent with the domestic proposal and EGRRCPA's amendments to section 165 of the Dodd-Frank Act, this proposal generally would increase the asset size threshold for application of the enhanced prudential standards framework to foreign banking organizations

from \$50 billion to \$100 billion in total consolidated assets.²⁶ Under the proposal, such a foreign banking organization with \$100 billion or more in combined U.S. assets²⁷ would be subject to Category II, Category III, or Category IV enhanced prudential standards.²⁸ The category of standards that would apply to a foreign banking organization would be based on the risk profile of its U.S. operations, as measured by size, cross-jurisdictional activity, nonbank assets, off-balance sheet exposure, and weighted short-term wholesale funding. The most stringent requirements would apply to a foreign banking organization subject to Category II standards. Requirements under this category would apply to a foreign banking organization with very large U.S. operations or those with significant cross-jurisdictional activity, and generally would remain unchanged from existing requirements. In comparison, requirements applicable to foreign banking organizations would become increasingly less stringent under Category III and Category IV, respectively, commensurate with the reduced sizes and risk profiles of their U.S. operations. Category III standards would apply to a foreign banking organization with U.S. operations that are significant in size or have elevated U.S. risk profiles, measured based on the levels of nonbank assets, off-balance sheet exposure, and weighted short-term wholesale funding

²⁶ Under the proposal, the threshold for application of risk-management requirements would increase from \$10 billion to \$50 billion in total consolidated assets.

²⁷ Combined U.S. assets means the sum of the consolidated assets of each top-tier U.S. subsidiary of a foreign banking organization (excluding any section 2(h)(2) company, if applicable) and the total assets of each U.S. branch and U.S. agency of a foreign banking organization, as reported by the foreign banking organization on the Annual Report of Foreign Banking Organizations (FR Y-7Q).

²⁸ This proposal would not apply the most stringent Category I standards to foreign banking organizations because, under the domestic proposal, Category I standards would apply only to U.S. global systemically important bank holding companies. Under Board regulations, only a top-tier U.S. bank holding company can be identified as a U.S. global systemically important bank holding company. *See* 12 CFR 217.11(d); 12 CFR part 217, subpart H.

among those operations. The least stringent prudential standards would apply under Category IV to a foreign banking organization with combined U.S. assets of at least \$100 billion that is not subject to Category III or Category II standards based on its U.S. risk profile.

Section II.B. of this Supplementary Information section discusses the proposed criteria for determining which category of standards would apply to a foreign banking organization, and Sections II.C. through II.E. of this Supplementary Information section discuss the standards that would apply under each category. Section II.F. of this Supplementary Information section discusses the standards that would apply to foreign banking organizations with total consolidated assets of \$100 billion or more, but a U.S. presence that does not meet the criteria for the application of prudential standards under the categories described in this proposal and that presents lesser risk to U.S. financial stability. Other than U.S. risk-management requirements, the proposal would not apply enhanced prudential standards to foreign banking organizations with total consolidated assets of less than \$100 billion, consistent with EGRRCPA.

B. Scoping criteria for proposed categories

Under the proposal, the three categories for determining the enhanced prudential standards that apply to foreign banking organizations with combined U.S. assets of \$100 billion or more would be defined based on the following criteria, measured based on the combined U.S. operations of a foreign banking organization:

- Category II standards, including risk-management standards, liquidity requirements, and single-counterparty credit limit requirements, would apply to foreign banking organizations with \$700 billion or more in combined U.S. assets, or \$75 billion or

more in cross-jurisdictional activity.²⁹ In addition, under the interagency foreign banking organization capital and liquidity proposal, the most stringent standardized liquidity requirements would apply to the foreign banking organization at the level of any U.S. intermediate holding company and certain of its depository institution subsidiaries.

- Category III standards, including risk-management standards, liquidity requirements, and single-counterparty credit limit requirements, would apply to foreign banking organizations that are not subject to Category II standards and that have \$250 billion or more in combined U.S. assets or \$75 billion or more in any of the following indicators: nonbank assets, weighted short-term wholesale funding, or off-balance sheet exposure. Standardized liquidity requirements³⁰ (applicable at the level of its U.S. intermediate holding company (and certain of its depository institution subsidiaries), if any) would vary in stringency based on a foreign banking organization's level of weighted short-term wholesale funding, as described in the interagency foreign banking organization capital and liquidity proposal.
- Category IV risk-management standards and liquidity requirements would apply to foreign banking organizations with at least \$100 billion in combined U.S. assets that

²⁹ Cross-jurisdictional activity would be measured excluding cross-jurisdictional liabilities to non-U.S. affiliates and cross-jurisdictional claims on non-U.S. affiliates to the extent that these claims are secured by financial collateral.

³⁰ The specific standardized liquidity requirements that would apply under Categories III and IV based on weighted short-term wholesale funding levels of \$75 billion and \$50 billion, respectively, are discussed in the interagency foreign banking organization capital and liquidity proposal. Proposed changes to the liquidity data reporting requirements under FR 2052a are discussed later in this proposal.

do not meet any of the thresholds proposed for Categories II and III. In addition, as discussed in the interagency foreign banking organization capital and liquidity proposal, standardized liquidity requirements would apply to a foreign banking organization with \$50 billion or more in weighted short-term wholesale funding at the level of its U.S. intermediate holding company (and certain of its depository institution subsidiaries), if any.

Capital standards, including stress testing and capital planning, would apply to a U.S. intermediate holding company that meets the thresholds for Categories II, III and IV described above, based on its total consolidated assets or the materiality of the risk-based indicators. The stress testing and capital planning requirements would increase in stringency commensurate with the risk profile of a U.S. intermediate holding company.

The use of a multi-category approach would align the enhanced prudential standards applicable to foreign banking organizations with those set forth in the domestic proposal for U.S. firms with similar risk profiles. Such an approach would allow firms and the public to identify what requirements apply to a foreign banking organization's U.S. operations and predict what requirements would apply if the risk profile of those operations were to change. By taking into consideration the materiality of each risk indicator that would be used to determine the applicability of Category II, Category III, or Category IV standards, the proposal would provide a basis for assessing the extent to which a foreign banking organization's U.S. operations present U.S. financial stability and safety and soundness risks. The proposed thresholds would apply based on the level of each indicator averaged over the preceding four calendar quarters, as described further below, in order to capture significant changes in a foreign banking organization's U.S. risk profile, rather than temporary fluctuations.

In general, the proposed categories of standards align with the categories that would apply under the domestic proposal to U.S. banking organizations. The domestic proposal includes an additional category of standards – Category I – that would apply to U.S. global systemically important bank holding companies (U.S. GSIBs), identified using the methodology under the Board’s U.S. GSIB surcharge rule.³¹ Because the U.S. GSIB surcharge rule would not identify a foreign banking organization or U.S. intermediate holding company as a U.S. GSIB, Category I standards would not apply to any foreign banking organization or U.S. intermediate holding company under this proposal.

Question 1: What would be the advantages and disadvantages of including enhanced prudential standards that are more stringent than those in Category II, comparable to those of Category I under the domestic proposal, and applying them to a U.S. intermediate holding company or the combined U.S. operations of a foreign banking organization with a comparable systemic risk profile to that of a U.S. GSIB? What differences in enhanced prudential standards would be appropriate to apply to such a U.S. intermediate holding company or foreign banking organization with respect to its combined U.S. operations, relative to the standards that would apply under the proposal?

1. Size

Section 165 of the Dodd-Frank Act, as amended by EGRRCPA, requires the Board to apply enhanced prudential standards to foreign banking organizations based on their total

³¹ See 12 CFR part 217 subpart H; see also Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharge for Global Systemically Important Bank Holding Companies, 80 FR 49082 (August 14, 2015).

consolidated asset size. The proposal would consider total consolidated asset size for determining whether a foreign banking organization is subject to the enhanced prudential standards framework, and tailor the application of those standards based on the combined U.S. assets of a foreign banking organization³² or, with respect to the application of capital standards, the total consolidated assets of a foreign banking organization's U.S. intermediate holding company.³³ This approach is similar to the current enhanced prudential standards framework.

The Board believes a size threshold based on a foreign banking organization's U.S. presence is appropriate for differentiating among foreign banking organizations in view of the statutory purpose of the enhanced prudential standards framework, which is to prevent or mitigate risk to U.S. financial stability.³⁴ In addition, a size threshold based on the combined U.S. operations or U.S. intermediate holding company of a foreign banking organization would more closely align the application of enhanced prudential standards to both domestic and foreign banking organizations. The asset size thresholds set forth in this proposal are generally

³² Combined U.S. assets are reported on the FR Y-7 or FR Y-7Q. Total consolidated assets of a U.S. intermediate holding company are reported on the Consolidated Statements for Holding Companies, under Form FR Y-9C. Consistent with the existing prudential standards framework, the combined U.S. assets of a foreign banking organization would continue to be calculated as the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organizations (excluding any section 2(h)(2) company, if applicable) and the total assets of each U.S. branch and U.S. agency of the foreign banking organization.

³³ All U.S. intermediate holding companies are required to file Form FR Y-9C, regardless of whether they control a bank. If the U.S. intermediate holding company has not filed an FR Y-9C for each of the four most recent consecutive quarters, it must use the most recent quarter or consecutive quarters as reported on FR Y-9C.

³⁴ 12 U.S.C. 5365(a)(1).

consistent with those that would apply to large U.S. banking organizations under the domestic proposal for Categories II through IV.

In developing the asset size thresholds for the domestic proposal, the Board considered the requirements of section 165 of the Dodd-Frank Act, as amended by EGRRCPA, together with historical examples of large U.S. banking organizations that experienced significant distress or failure during the financial crisis. The Board's analysis found that the crisis experience of domestic banking organizations with total consolidated assets of \$100 billion, \$250 billion, and \$700 billion presented materially different risks to U.S. financial stability and the U.S. economy more broadly, which would support the differentiation of enhanced prudential standards for firms included within those size thresholds.³⁵ In addition, size thresholds of these orders of magnitude reflected observed differences in structural and operational complexity, and in the range and scale of financial services a firm provides.

The Board recognizes that the U.S. operations of foreign banking organizations are structured differently than domestic firms; nevertheless, the risks to U.S. financial stability and safety and soundness that stem from size are present regardless of structure. Because foreign banking organizations operate through both branches and agencies as well as U.S. subsidiaries, the proposal would establish categories based on the foreign banking organization's combined U.S. assets. The size of a foreign banking organization's U.S. operations provides a measure of the extent to which U.S. customers or counterparties may be exposed to a risk of loss or suffer a

³⁵ 83 FR 61408, 61413-14 (November 29, 2018).

disruption in the provision of services in the United States.³⁶ For example, during the financial crisis some large foreign banking organizations rapidly deleveraged their U.S. operations to address capital deficiencies, leaving commercial borrowers without a primary source of funding and contributing to large-scale asset fire sales. For foreign banking organizations with the largest U.S. operations, rapid deleveraging among those operations could disrupt U.S. markets and thereby present significant risks to U.S. financial stability in the same way as similarly sized domestic firms, due to the materiality of their presence in the United States.

Question 2: What are the advantages and disadvantages of using size thresholds to tailor prudential standards for foreign banking organizations? In what ways, if any, does the inclusion of asset size thresholds in prudential standards drive changes in foreign banking organizations' business models and risk profiles in ways that differ from the effects of thresholds based on other risk-based indicators? To what extent can other factors adequately differentiate among the risk profiles of foreign banking organizations and serve as tools to tailor prudential standards?

2. Other risk-based indicators

Consistent with the domestic proposal, this proposal also would consider the level of cross-jurisdictional activity, nonbank assets, off-balance sheet exposure, and weighted short-term wholesale funding levels of a foreign banking organization's U.S. operations to determine the applicable category of standards. The Board is proposing to apply a uniform threshold of \$75 billion for each of these risk-based indicators. A threshold of \$75 billion would represent at least 30 percent and as much as 75 percent of the size of the U.S. operations of a foreign banking

³⁶ For domestic banking organizations, categories of standards are defined based on total consolidated assets, including the U.S. banking organization's international operations.

organization or a U.S. intermediate holding company with combined U.S. assets or total consolidated assets, respectively, of between \$100 billion and \$250 billion. The agencies also proposed a \$75 billion threshold for these indicators in the domestic interagency proposal. Under this proposal and the domestic proposal, setting the thresholds for these risk-based indicators at \$75 billion would ensure that domestic banking organizations and the U.S. operations of foreign banking organizations that account for the vast majority—over 70 percent—of the total amount of each risk-based indicator would be subject to enhanced prudential standards. To the extent the levels and distribution of an indicator substantially change in the future, the Board may consider modifications, if appropriate.

In addition to foreign banking organizations with \$700 billion or more in combined U.S. assets, Category II standards would apply to a foreign banking organization with (1) \$100 billion or more in combined U.S. assets and (2) combined U.S. operations with \$75 billion or more in cross-jurisdictional activity. Similarly, in addition to foreign banking organizations with \$250 billion or more in combined U.S. assets, Category III standards would apply to foreign banking organization with (1) \$100 billion or more in combined U.S. assets and (2) combined U.S. operations with at least \$75 billion in weighted short-term wholesale funding, nonbank assets, or off-balance sheet exposure.³⁷

³⁷ For capital standards, in addition to U.S. intermediate holding companies with \$700 billion or more in total assets, Category II would apply to a U.S. intermediate holding company with (1) total consolidated assets of \$100 billion or more and (2) \$75 billion or more in cross-jurisdictional activity. In addition to U.S. intermediate holding companies with \$250 billion or more in total assets, Category III capital standards would apply to a U.S. intermediate holding company with (1) \$100 billion or more in total consolidated assets and (2) \$75 billion or more in weighted short-term wholesale funding, nonbank assets, or off-balance sheet exposure.

a. Cross-jurisdictional activity

Foreign banking organizations with U.S. operations that engage in significant cross-jurisdictional activity present complexities that support the application of more stringent standards. For example, significant cross-border activity of the U.S. operations of a foreign banking organization may require more sophisticated risk management to appropriately address the heightened interconnectivity and complexity of those operations and the diversity of risks across all jurisdictions in which the foreign banking organization provides financial services. In addition, cross-jurisdictional activity may present increased challenges in resolution because there could be legal or regulatory restrictions that prevent the transfer of financial resources across borders where multiple jurisdictions and regulatory authorities are involved. The use of a threshold based on cross-jurisdictional activity to differentiate prudential standards applicable to foreign banking organizations is also intended to maintain consistency with the thresholds proposed for large U.S. banking organizations under the domestic proposal. The Board's capital and liquidity regulations currently use total on-balance sheet foreign exposure, as reported on the Country Exposure Report (FFIEC 009), to determine the application of certain requirements for depository institution holding companies and certain of their depository institution subsidiaries, such as the supplementary leverage ratio and countercyclical capital buffer.³⁸

For purposes of determining the application of prudential standards under the proposal, a foreign banking organization would measure cross-jurisdictional activity as the sum of the cross-

³⁸ See 12 CFR 217.10 (requiring advanced approaches Board-regulated institutions to maintain a supplementary leverage ratio); 217.11(b) (requiring advanced approaches Board-regulated institutions to maintain a countercyclical capital buffer); 217.100(b)(1) (describing the size and on-balance sheet foreign exposure thresholds for determining an advanced approaches Board-regulated institution).

jurisdictional assets and liabilities of its combined U.S. operations or its U.S. intermediate holding company, as applicable, excluding intercompany liabilities and collateralized intercompany claims. Measuring cross-jurisdictional activity taking into account both assets and liabilities—instead of just assets—would provide a broader gauge of the scale of cross-border operations and associated risks, as it includes both borrowing and lending activities outside of the United States.³⁹ The proposal would adjust the measurement of cross-jurisdictional activity to exclude intercompany liabilities and to recognize collateral in calculating intercompany claims in order to reflect the structural differences between foreign banking organizations' operations in the United States and domestic holding companies.

Specifically, the proposed cross-jurisdictional activity indicator would exclude liabilities of the combined U.S. operations or U.S. intermediate holding company that reflect transactions with non-U.S. affiliates. Intercompany liabilities generally represent funding from the foreign banking organization to its U.S. operations and, in the case of certain long-term debt instruments, may be required by regulation.⁴⁰ The proposed exclusion recognizes the benefit of the foreign banking organization providing support to its U.S. operations. Short-term funding from affiliates, which may pose heightened liquidity risks to the U.S. operations, would be captured in the proposal's measure of weighted short-term wholesale funding.

³⁹ The Basel Committee on Banking Supervision (BCBS) recently amended its measurement of cross-border activity to more consistently reflect derivatives, and the Board anticipates it will separately propose changes to the FR Y-15 in a manner consistent with this change. Any related changes to the proposed cross-jurisdictional activity indicator would be updated through those separately proposed changes to the FR Y-15.

⁴⁰ See 12 CFR 252.162 and 12 CFR 252.165.

Foreign banking organizations' U.S. operations often intermediate transactions between U.S. clients and foreign markets, including by facilitating access for foreign clients to the U.S. markets, and clearing and settling U.S. dollar-denominated transactions. In addition, they engage in transactions to manage enterprise-wide risks. In these roles, they engage in substantial and regular transactions with non-U.S. affiliates. In recognition that the U.S. operations have increased cross-jurisdictional activity as a result of these activities, the proposal would include in cross-jurisdictional claims only the net exposure (i.e., net of collateral value subject to haircuts) of all secured transactions with non-U.S. affiliates to the extent that these claims are collateralized by financial collateral.⁴¹

The proposed recognition of financial collateral would apply to all types of claims, including repurchase agreements and securities lending agreements. Specifically, claims on non-U.S. affiliates would be reduced by the value of any financial collateral in a manner consistent with the collateral haircut approach in the Board's capital rule,⁴² which permits banking organizations to recognize financial collateral when measuring the exposure amount of repurchase agreements and securities borrowing and securities lending transactions (together, repo-style transactions).⁴³ The capital rule recognizes as financial collateral certain types of high-quality collateral, including cash on deposit and securities issued by the U.S. government, as well as certain types of equity securities and debt. With the exception of cash on deposit, the banking organization also is required to have a perfected, first-priority interest in the collateral

⁴¹ See the definition of "financial collateral" at 12 CFR 217.2.

⁴² See 12 CFR 217.37.

⁴³ See the definition of "repo-style transaction" at 12 CFR 217.2.

or, outside of the United States, the legal equivalent thereof.⁴⁴ Permitting the reduction of certain claims on non-U.S. affiliates if the collateral meets the definition of financial collateral would ensure that the collateral is liquid, while the use of supervisory haircuts would also limit risk associated with price volatility. In addition, relying on the capital rule's definition of financial collateral would provide clarity regarding the types of collateral eligible to reduce the amount of cross-jurisdictional claims under this approach.

As an example of how the proposed financial collateral recognition would operate, if the U.S. operations of a foreign banking organization placed cash with the parent foreign banking organization through a reverse repurchase agreement, and the parent foreign banking organization provided securities that qualified as financial collateral, the exposure of the U.S. operations would be reduced by the value of the securities in a manner consistent with the capital rule's collateral haircut approach. If the value of the claim exceeds the value of the financial

⁴⁴ See 12 CFR 217.2. The proposal would differ from the FFIEC 009, on which U.S. intermediate holding companies report cross-border claims, in two respects. The FFIEC 009 uses different rules to recognize collateral, using the term "eligible collateral," which includes cash as well as investment grade debt or marketable equity securities. In addition, the FFIEC 009 requires reporting of repurchase agreements, securities lending agreements and other similar financing agreements at the value of the outstanding claim, regardless of the amount of collateral provided. See Instructions for the Preparation of the Country Exposure Report (FFIEC 009) at 12-13 (effective September 2016). The proposal would use the concept of financial collateral from the capital rule and would permit netting for any claim to which the collateral haircut approach applies under the capital rule.

In addition, the FFIEC 009 measures cross-jurisdictional activity on an ultimate-risk basis, whereby claims are allocated based on the country of residence of the ultimate obligor, which, in certain cases, can mean the country or residence of the collateral provided (ultimate-risk basis). Securities lending agreements and repurchase agreements, however, are allocated based on the residence of the counterparty, without taking into consideration features of the collateral. The proposal would require allocation of exposures on an ultimate-risk basis (subject to the netting described above).

collateral after taking into account supervisory haircuts, then the uncollateralized portion of the claim would be included in the foreign banking organization's measure of cross-jurisdictional activity. Conversely, if the value of the collateral after taking into account supervisory haircuts exceeds the value of the claim, the exposure to the non-U.S. affiliate would be excluded from the measure of cross-jurisdictional activity.

In addition to the proposal to exclude intercompany liabilities and certain collateralized intercompany claims from the measure of cross-jurisdictional activity, the Board is requesting comment on alternatives to adjusting the measure for cross-jurisdictional activity to recognize that the U.S. intermediate holding company or combined U.S. operations engage in substantial and regular transactions with non-U.S. affiliates.

Under the first alternative, the Board would exclude all transactions with non-U.S. affiliates from the computation of the cross-jurisdictional activity of a U.S. intermediate holding company or the combined U.S. operations of a foreign banking organization. This alternative would focus only on third-party assets and liabilities and may be a less burdensome way to account for the structural differences between foreign banking organizations' operations in the United States and large domestic holding companies.

Under the second alternative, the Board would adjust the \$75 billion threshold for the cross-jurisdictional activity indicator. For example, the Board could apply a threshold of \$100 billion for cross-jurisdictional activity such that the U.S. intermediate holding company or combined U.S. operations of a foreign banking organization would be subject to Category II capital or liquidity standards if it exceeded this threshold. This alternative would recognize the flows between a foreign banking organization's U.S. operations and its foreign affiliates without making any additional adjustments to address intercompany liabilities or collateralized

intercompany claims. This alternative would not require a foreign banking organization to monitor collateral transfers or calculate supervisory haircuts in measuring its cross-jurisdictional activity.

Question 3: What are the advantages and disadvantages of recognizing the value of collateral for certain transactions with non-U.S. affiliates in the computation of the cross-jurisdictional activity of a U.S. intermediate holding company or the combined U.S. operations of a foreign banking organization? How would this recognition align with the objectives of the proposed indicator as a measure of operational complexity, scope, and risks associated with operations and activities in foreign jurisdictions and with principles of national treatment and equality of competitive opportunity?

Question 4: What would be the advantages and disadvantages of excluding from the measure of cross-jurisdictional activity liabilities to non-U.S. affiliates? How would this exclusion align with the objectives of the proposed indicator as a measure of operational complexity, scope, and risks associated with operations and activities in foreign jurisdictions and with principles of national treatment and equality of competitive opportunity?

Question 5: What are the advantages and disadvantages of recognizing collateral for all repo-style transactions and other collateralized positions? To what extent should the type of transaction determine whether collateral is recognized?

Question 6: What are the advantages and disadvantages of relying on the definition of financial collateral in the capital rule and applying supervisory haircuts in calculating the amount of cross-jurisdictional claims? What are the burdens associated with this approach and how do these burdens compare with the benefits? Are there other criteria that the Board should

consider in addition to this approach (e.g., the amount of time that would be needed to monetize the collateral) and why?

Question 7: What would be the advantages and disadvantages of other ways to define eligible collateral, such as relying on the definition of high-quality liquid assets (HQLA) in the liquidity coverage ratio rule (LCR rule)?⁴⁵ Under this alternative approach, collateral would be recognized in the calculation of the exposure if the collateral is HQLA. Would relying on the definition of HQLA help ensure the collateral is liquid and provide greater clarity on the types of collateral that could be recognized? What are the burdens associated with this approach and how do these burdens compare with the benefits?

Question 8: As discussed above, measuring cross-jurisdictional activity on an ultimate risk basis takes into consideration both the type of collateral, and the location of the collateral or issuer. On the FFIEC 009, if collateral is in the form of investment grade debt or marketable securities, risk is allocated based on the residence of the issuer of the security, while cash collateral is allocated based on the residence of the legal entity where the cash is held. What would be the advantages and disadvantages of allocating cross-jurisdictional claims based on the location of the entity holding the collateral for securities and cash?

Question 9: On the FFIEC 009, repurchase agreements, securities lending agreements, and other similar financial transactions cannot be re-allocated or “transferred” to a different jurisdiction based on the location of the collateral or issuer. What would be the advantages and disadvantages of allowing repurchase agreements, securities financing transactions, and other

⁴⁵ See Liquidity Coverage Ratio: Liquidity Risk Measurement Standards, 79 FR 61440, 61450 (Oct. 10, 2014), codified at 12 CFR part 50 (OCC), 12 CFR part 249 (Board), and 12 CFR part 329 (FDIC). For the definition of HQLA under the Board’s LCR rule, see 12 CFR 249.20.

similar agreements to be excluded from the measure of cross-jurisdictional activity if the collateral was issued by a U.S. entity or, for cash collateral, located in the United States? How would such treatment align with the objectives of the proposed indicator as a measure of operational complexity, scope, and risks associated with operations and activities in foreign jurisdictions and with principles of national treatment and equality of competitive opportunity?

Question 10: What are the advantages and disadvantages of measuring cross-jurisdictional activity on an immediate-counterparty basis (i.e., on the basis of the country of residence of the borrower) rather than on an ultimate-risk basis? What, if any, clarifications could be made to the measurement of cross-jurisdictional activity on an ultimate-risk basis to ensure consistency across banking organizations and more accurate assessment of risk?

Question 11: What is the most appropriate way in which the proposed cross-jurisdictional activity indicator could account for the risk of transactions with a delayed settlement date, and why? What are the advantages and disadvantages of the use of settlement-date accounting versus trade-date accounting for purposes of the cross-jurisdictional activity indicator?

Question 12: What are the advantages or disadvantages of the alternative approaches to measuring non-U.S. affiliate transactions for purposes of the measure of cross-jurisdictional activity indicator? How do these alternatives compare to the proposal?

Question 13: What other positions, if any, should be excluded from or included in the cross-jurisdictional activity indicator for purposes of determining prudential standards, and why? How would excluding from the cross-jurisdictional activity measure a broader or narrower set of intercompany assets and liabilities align with the objectives of the proposed indicator as a measure of operational complexity, scope, and risks associated with operations

and activities in foreign jurisdictions and with principles of national treatment and equality of competitive opportunity?

Question 14: What would be the advantages and disadvantages of including in or excluding from the proposed cross-jurisdictional activity indicator positions of the U.S. branches and agencies of a foreign banking organization with the parent foreign banking organization or other non-U.S. affiliates? For example, what would be the advantages or disadvantages of including or excluding reported gross due from and gross due to the parent foreign banking organization or other non-U.S. affiliates?

Question 15: What modifications to the proposed cross-jurisdictional activity measure should the Board consider to better align it with the proposed treatment for U.S. banking organizations under the domestic proposal and promote consistency in the measurement of assets and liabilities across the Board's prudential standards framework and applicable accounting standards, and why? How would any such modification more appropriately account for the risks of cross-jurisdictional activity for foreign banking organizations and mitigate risks to U.S. financial stability?

Question 16: To what extent would using a particular measure of cross-jurisdictional activity create incentives for foreign banking organizations to restructure relationships between U.S. subsidiaries, U.S. branches and agencies, and non-U.S. affiliates?

Question 17: What alternative indicators should the Board consider to the proposed cross-jurisdictional activity indicator as a measure of cross-border activity of a foreign banking organization? How would any alternative indicator align with the proposed cross-jurisdictional activity measure for U.S. banking organizations under the domestic interagency proposal?

Question 18: What are the advantages and disadvantages of the proposal or the alternatives in combination with other potential changes to the measurement and reporting of cross-jurisdictional activity discussed above (e.g., ultimate-risk basis)? How would changes to the measurement and reporting of cross-jurisdictional activity in combination with the proposal or alternatives align with the objectives of the proposed indicator as a measure of operational complexity, scope, and risks associated with operations and activities in foreign jurisdictions and with principles of national treatment and equality of competitive opportunity?

Question 19: Data reported on the Banking Organization Systemic Risk Report (FR Y-15) is used to measure the systemic risk of large banking organizations, including to identify and calibrate surcharges applied to U.S. GSIBs. The Board may amend the FR Y-15 in this context, and would seek comment on the effect of any changes on the U.S. GSIB surcharge framework as well as on the advantages and disadvantages of incorporating these changes into the calculation of risk indicators. The Board also may separately amend the FR Y-15 in the context of the calculation of risk indicators. What are the advantages and disadvantages of the risk-based indicator definitions tracking the inputs to the U.S. GSIB surcharge framework?

b. Nonbank assets

The level of a banking organization's investment in nonbank subsidiaries provides a measure of the organization's business and operational complexity. Specifically, banking organizations with significant investments in nonbank subsidiaries are more likely to have complex corporate structures, inter-affiliate transactions, and funding relationships. A banking organization's complexity is positively correlated with the impact of the organization's failure or distress. Through its U.S. intermediate holding company, a foreign banking organization can maintain significant investments in nonbank subsidiaries, and therefore may present structural,

funding, and resolution concerns analogous to those presented by domestic banking organizations.

Nonbank activities also may involve a broader range of risks than those associated with banking activities, and can increase interconnectedness with other financial market participants, requiring sophisticated risk management and governance, including capital planning, stress testing, and liquidity risk management. If not adequately managed, the risks associated with nonbanking activities could present significant safety and soundness concerns and increase financial stability risks. The distress or failure of a nonbank subsidiary could be destabilizing to the U.S. operations of a foreign banking organization and the foreign banking organization itself, and cause counterparties and creditors to lose confidence in the organization's global operations. Nonbank assets also reflect the degree to which a foreign banking organization and its U.S. operations may be engaged in activities through legal entities that are not subject to separate capital requirements or to the direct regulation and supervision applicable to a regulated banking entity.

The proposed nonbank assets indicator would align with the measure of nonbank assets currently used in the capital plan rule to tailor certain requirements as well as with the nonbank assets indicator in the domestic proposal.⁴⁶

⁴⁶ The capital plan rule defines “average total nonbank assets” as the average of the total nonbank assets of a U.S. intermediate holding company subject to the capital plan rule, calculated in accordance with the instructions to the FR Y-9LP, for the four most recent consecutive quarters or, if the intermediate holding company has not filed the FR Y-9LP, for each of the four most recent consecutive quarters, for the most recent quarter or consecutive quarters, as applicable. *See* 12 CFR 225.8(d)(2).

c. Off-balance sheet exposure

Off-balance sheet exposure complements the measure of size by taking into consideration financial and banking activities not reflected on the balance sheet of a foreign banking organization with respect to its U.S. operations. Like size, off-balance sheet exposure provides a measure of the extent to which customers or counterparties may be exposed to a risk of loss or suffer a disruption in the provision of services. In addition, off-balance sheet exposure can lead to significant future draws on liquidity, particularly in times of stress. During the financial crisis, for example, vulnerabilities among the U.S. operations of foreign banking organizations were exacerbated by margin calls on derivative exposures and draws on commitments. These exposures can be a source of safety and soundness risk, as organizations with significant off-balance sheet exposure may have to fund these positions in the market in a time of stress. These risks also may affect financial stability because they can manifest rapidly and with less transparency to other market participants, in comparison to the risks associated with on-balance sheet positions. In addition, because draws on off-balance sheet exposures such as committed credit and liquidity facilities tend to increase in times of stress, they can exacerbate the effects of stress conditions.⁴⁷

Off-balance sheet exposure may also serve as a measure of interconnectedness. Some off-balance sheet exposures, such as derivatives, are concentrated among the largest financial

⁴⁷ See William F. Bassett, Simon Gilchrist, Gretchen C. Weinbach, Egon Zakrajšek, “Improving Our Ability to Monitor Bank Lending,” in *Risk Topography: Systemic Risk and Macro Modeling* 149-161 (Markus Brunnermeier and Arvind Krishnamurthy, eds. 2014), available at: <http://www.nber.org/chapters/c12554>.

firms.⁴⁸ The distress or failure of one party to a financial contract, such as a derivative or securities financing transaction, can trigger disruptive terminations of these contracts that destabilize the defaulting party's otherwise solvent affiliates.⁴⁹ Such a default also can lead to disruptions in other financial markets, for example, by causing market participants to rapidly unwind trading positions.⁵⁰ In this way, the effects of one party's failure or distress can be amplified by its off-balance sheet connections with other financial market participants.

Under the proposal, off-balance sheet exposure would be measured as the difference between total exposure and on-balance sheet assets.⁵¹ Total exposure includes on-balance sheet assets plus certain off-balance sheet exposures, including derivative exposures, repo-style transactions, and other off-balance sheet exposures (such as commitments).

⁴⁸ *See, e.g.*, Sheri M. Markose, Systemic Risk from Global Financial Derivatives: A Network Analysis of Contagion and its Mitigation with Super-Spreader Tax, IMF Working Papers (Nov. 30, 2012), available at: <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Systemic-Risk-from-Global-Financial-Derivatives-A-Network-Analysis-of-Contagion-and-Its-40130>.

⁴⁹ To address these risks, the agencies have established restrictions relating to the qualified financial contracts of U.S. GSIBs, the insured depository institution subsidiaries of U.S. GSIBs, and the U.S. operations of systemically important foreign banking organizations. *See* 12 CFR part 252, subpart I (Board); 12 CFR part 47 (OCC); and 12 CFR part 382 (FDIC). That rule does not apply to savings and loan holding companies, to the U.S. operations of other large foreign banking organizations, or to other large bank holding companies.

⁵⁰ *See e.g.*, The Orderly Liquidation of Lehman Brothers Holdings Inc. under the Dodd-Frank Act, 5 FDIC Quarterly No. 2, 31 (2011), <https://www.fdic.gov/bank/analytical/quarterly/2011-vol5-2/article2.pdf>.

⁵¹ In connection with extending the applicability of the FR Y-15 reporting requirements to U.S. branches and agencies of a foreign banking organization (discussed below), the proposal would add this measure of off-balance sheet exposure to the FR Y-15 reporting form as a separate line item.

d. Weighted short-term wholesale funding

The proposed weighted short-term wholesale funding indicator would provide a measure of the liquidity risk presented by the U.S. operations of a foreign banking organization, as reliance on short-term, generally uninsured funding from more sophisticated counterparties can make those operations vulnerable to large-scale funding runs. In particular, foreign banking organizations with U.S. operations that fund long-term assets with short-term liabilities from financial intermediaries such as investment funds may need to rapidly sell less liquid assets to meet withdrawals and maintain their operations in a time of stress, which they may be able to do only at “fire sale” prices. Asset fire sales can cause rapid deterioration in a foreign banking organization’s financial condition and adversely affect U.S. financial stability by driving down asset prices across the market. As a result, the use of weighted short-term wholesale funding presents both safety and soundness and financial stability risks. Short-term wholesale funding also provides a measure of interconnectedness among market participants, including other financial sector entities, which can provide a mechanism for transmission of distress.

The proposed short-term wholesale funding indicator would measure the extent to which the U.S. operations of a foreign banking organization rely on short-term wholesale funding sources.⁵² Weighted short-term wholesale funding would include exposures between the U.S. operations of a foreign banking organization and its non-U.S. affiliates, as reliance on short-

⁵² Specifically, short-term wholesale funding is the amount of a firm’s funding obtained from wholesale counterparties or retail brokered deposits and sweeps with a remaining maturity of one year or less. Categories of short-term wholesale funding are then weighted based on four residual maturity buckets; the asset class of collateral, if any, backing the funding; and characteristics of the counterparty. *See*, 12 CFR 217.406 and Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, 80 FR 49082 (August 14, 2015).

term wholesale funding from affiliates can contribute to a firm's funding vulnerability in times of stress.

Weighted short-term wholesale funding levels would serve as both a threshold for the general application of Category III standards, as well as a separate threshold for applying enhanced liquidity requirements to foreign banking organizations whose combined U.S. operations reflect heightened liquidity risk profiles. A foreign banking organization whose combined U.S. operations have weighted short-term wholesale funding of at least \$75 billion would be subject to the general application of Category III standards, which would include daily liquidity data reporting under this proposal and full standardized liquidity requirements applicable to a U.S. intermediate holding company and certain depository institution subsidiaries, if any, under the interagency foreign banking organization capital and liquidity proposal. By contrast, a foreign banking organization subject to Category III standards whose combined U.S. operations have less than \$75 billion of weighted short-term wholesale funding would be subject to a monthly liquidity data reporting requirement under this proposal and reduced standardized liquidity requirements applicable to a U.S. intermediate holding company and certain depository institution subsidiaries, if any, under the interagency foreign banking organization capital and liquidity proposal.⁵³

⁵³ In addition, as discussed in more detail in the interagency foreign banking organization capital and liquidity proposal, domestic and foreign banking organizations subject to Category IV standards that have weighted short-term wholesale funding levels of at least \$50 billion would be subject to reduced standardized liquidity requirements, which would apply to its U.S. intermediate holding company and certain of its depository institution subsidiaries, if any. The Board is requesting comment on whether it should impose standardized liquidity requirements on the U.S. branch and agency network of a foreign banking organization, as well as possible approaches for doing so, which would be proposed through a future rulemaking.

Question 20: What are the advantages and disadvantages of the proposed risk-based indicators? What different indicators should the Board use, and why?

Question 21: The Board is considering whether Category II standards should apply based on weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure, using a higher threshold than the \$75 billion threshold that would apply for Category III standards, in addition to the thresholds discussed above based on asset size and cross-jurisdictional activity. For example, a foreign banking organization or U.S. intermediate holding company could be subject to Category II standards if one or more of these indicators equals or exceeds a level such as \$100 billion or \$200 billion. A threshold of \$200 billion would represent at least 30 percent and as much as 80 percent of total assets for the U.S. operations of a foreign banking organization with between \$250 billion and \$700 billion in combined U.S. assets. If the Board were to adopt additional indicators for purposes of identifying foreign banking organizations with U.S. operations that should be subject to Category II standards, at what level should the threshold for each indicator be set, and why? Commenters are encouraged to provide data supporting their recommendations.

3. Alternative scoping criteria

An alternative approach for tailoring the application of enhanced prudential standards to a foreign banking organization would be to use a single, comprehensive score to assess the risk profile and systemic footprint of a foreign banking organization's combined U.S. operations or U.S. intermediate holding company. The Board uses such an identification methodology (scoring methodology) to identify a U.S. bank holding company as a U.S. GSIB and apply risk-based capital surcharges to these firms. As an alternative in the domestic proposal, the Board

described a scoring methodology that could be used to tailor prudential standards for domestic banking organizations.

The scoring methodology in the Board's regulations is used to calculate a U.S. GSIB's capital surcharge under two methods.⁵⁴ The first method is based on the sum of a bank holding company's systemic indicator scores reflecting its size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity (method 1). The second method is based on the sum of these same measures of risk, except that the substitutability measures are replaced with a measure of the bank holding company's reliance on short-term wholesale funding (method 2).⁵⁵ Consistent with the domestic proposal and as an alternative to the threshold approach under this proposal, the Board is seeking comment on use of the scoring methodology to tailor the application of enhanced prudential standards to the U.S. operations of foreign banking organizations.

The scoring methodology was designed to identify and assess the systemic risk of a large banking organization, and similarly can be used to measure the risks posed by the U.S. operations of foreign banking organizations.⁵⁶ The component measures of the scoring methodology identify banking organizations that have heightened risk profiles and provide a basis for assessing risk to safety and soundness and U.S. financial stability. Size,

⁵⁴ Application of a U.S. GSIB's capital surcharge is determined based on an annual calculation. Similarly, the alternative scoping criteria under this proposal would be based on an annual calculation. *See* 12 CFR part 217, subpart H.

⁵⁵ For more discussion relating to the scoring methodology, please see the Board's final rule establishing the scoring methodology. *See* Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, 80 FR 49082 (Aug. 14, 2015).

⁵⁶ *See infra* note 41.

interconnectedness, cross-jurisdictional activity, substitutability, complexity, and short-term wholesale funding are indicators of risk for both foreign and domestic banking organizations. Similar to the thresholds-based approach set forth in this proposal, the indicators used in the scoring methodology closely align with the risk-based factors specified in section 165 of the Dodd-Frank Act. Because this information would be reported publicly, use of the scoring methodology would promote transparency in the application of such standards to foreign banking organizations.

The Board has previously used the scoring methodology and global methodology⁵⁷ to identify and apply enhanced prudential standards to U.S. subsidiaries and operations of foreign global systemically important banking organizations (foreign GSIBs). For example, the Board's restrictions on qualified financial contracts and total loss-absorbing capacity requirements apply to U.S. GSIBs and the U.S. operations of foreign GSIBs, with the latter identified under the Board's scoring methodology or the global methodology.⁵⁸ Accordingly, use of the scoring methodology would promote consistency with the Board's existing regulations.

Under the alternative scoring approach, the size of a foreign banking organization's combined U.S. assets, together with the method 1 or method 2 score of its U.S. operations under the scoring methodology, would be used to determine which category of standards would apply.

⁵⁷ Global methodology means the assessment methodology and the higher loss absorbency requirement for global systemically important banks issued by the BCBS, as updated from time to time. *See* 12 CFR 252.2.

⁵⁸ *See* 12 CFR 252.82(b) (definition of "covered entity" with regard to restrictions on qualified financial contracts); 12 CFR 252.160 (definition of "covered IHC" with regard to total loss-absorbing capacity requirements). *See also* 12 CFR 252.153(b) (identification of foreign GSIBs in the enhanced prudential standards rule; 12 CFR 252.170(a)(2)(ii) (definition of "major foreign banking organization" in single counterparty credit limits rule).

Consistent with the proposal, most enhanced prudential standards would be based on the method 1 or method 2 score applicable to a foreign banking organization's combined U.S. operations. The application of capital standards, however, would apply based on the method 1 or method 2 score of a foreign banking organization's U.S. intermediate holding company. U.S. intermediate holding companies already report information required to calculate method 1 and method 2 scores, and in connection with this proposal, those reporting requirements would be extended to include a foreign banking organization's combined U.S. operations.⁵⁹

To determine which category of standards would apply under the alternative scoring methodology, the Board considered the distribution of method 1 and method 2 scores of the U.S. operations of foreign banking organizations, U.S. intermediate holding companies, domestic bank holding companies and certain savings and loan holding companies with at least \$100 billion in total consolidated assets.⁶⁰ As discussed below, the Board is providing ranges of scores for the application of Category II and Category III standards. If the Board adopts a final rule that uses the scoring methodology to establish tailoring thresholds, the Board would set a single score within the listed ranges for the application of Category II and Category III standards.

Category II. In selecting the ranges of method 1 or method 2 scores that could define the application of Category II standards, the Board considered the potential of a firm's material distress or failure to disrupt the U.S. financial system or economy. The Board estimated method 1 and method 2 scores for domestic banking organizations with more than \$250 billion

⁵⁹ As discussed below, under the proposal, the FR Y-15 would be amended to collect risk-indicator data for the combined U.S. operations of foreign banking organizations.

⁶⁰ In conducting its analysis, the Board considered method 1 and method 2 scores as of September 30, 2018.

in total consolidated assets, and foreign banking organizations with more than \$250 billion in combined U.S. assets. To this sample, the Board added estimates of method 1 and method 2 scores for a banking organization whose distress impacted U.S. financial stability during the crisis (Wachovia), and estimated method 1 and method 2 scores assuming significant growth in operations (e.g., if one or more U.S. intermediate holding companies each had \$700 billion in assets). The Board also considered the outlier method 1 and method 2 scores for domestic and foreign banking organizations with more than \$250 billion in total consolidated assets that are not U.S. GSIBs.⁶¹

Based on this analysis and to maintain comparability to the domestic proposal, under the alternative scoring approach the Board would apply Category II standards to any foreign banking organization with at least \$100 billion in combined U.S. assets whose combined U.S. operations have (a) a method 1 score that meets or exceeds a minimum score between 60 and 80, or (b) a method 2 score that meets or exceeds a minimum score between 100 and 150. These same size thresholds and score ranges would apply to U.S. intermediate holding companies for the application of capital standards.

Category III. Under the proposal, the Board would apply Category III standards to a foreign banking organization with combined U.S. assets of \$250 billion or more, or for capital standards, a U.S. intermediate holding company with total consolidated assets of \$250 billion or more, that does not meet the criteria for Category II. This reflects, among other things, the crisis

⁶¹ Outliers can be determined by a number of statistical methods. For these purposes, the Board computed an outlier as the third quartile plus three times the interquartile range of method 1 and method 2 scores of U.S. bank holding companies, certain U.S. savings and loan holding companies, U.S. intermediate holding companies, and the combined U.S. operations of foreign banking organizations.

experience of domestic banking organizations with total consolidated assets of \$250 billion or more, which presented materially different risks to U.S. financial stability relative to firms with less than \$250 billion in assets. Similarly, under the domestic proposal, the Board would at a minimum apply Category III standards to a firm with assets of \$250 billion or more, reflecting the threshold above which the Board must apply enhanced prudential standards under section 165.

The domestic proposal seeks comment on an alternative scoring approach under which a firm with total consolidated assets between \$100 billion and \$250 billion that has a method 1 or method 2 score within a specified range would be subject to Category III standards. Specifically, the Board proposed selecting a minimum score for application of Category III standards between 25 and 45 under method 1, or between 50 and 85 under method 2. The maximum score for application of the Category III standards would be one point lower than the minimum score selected for application of Category II standards. In selecting these ranges, the Board compared the scores of domestic firms with total consolidated assets of between \$100 billion and \$250 billion with those of firms with total consolidated assets greater than \$250 billion. The Board performed a similar analysis including the scores of foreign banking organizations and found similar results. The Board is therefore considering the same thresholds for application of Category III standards to foreign banking organizations under the alternative scoring approach. Use of these thresholds would maintain comparable treatment between domestic firms and the U.S. operations of foreign banking organizations under the alternative scoring approach.

Specifically, under the alternative scoring approach, Category III standards would apply to a foreign banking organization with combined U.S. assets between \$100 billion and \$250 billion with a method 1 score that meets or exceeds a minimum score between 25 and 45 or

a method 2 score that meets or exceeds a minimum score between 50 and 85, and in either case is below the score threshold for Category II standards. These same size thresholds and score ranges would apply to U.S. intermediate holding companies for the application of capital standards.

Category IV: Under the alternative scoring approach, Category IV standards would apply to a foreign banking organization with at least \$100 billion in combined U.S. assets whose method 1 or method 2 score for its combined U.S. operations is below the minimum score threshold for Category III. Likewise, Category IV capital standards would apply to a foreign banking organization with a U.S. intermediate holding company that has at least \$100 billion in total assets and does not meet the minimum score threshold for Category III.

Question 22: What are the advantages and disadvantages to the use of the alternative scoring approach and category thresholds described above instead of the proposed thresholds for foreign banking organizations?

Question 23: If the Board were to use the alternative scoring approach to differentiate foreign banking organizations' U.S. operations for purposes of tailoring prudential standards, should the Board use method 1 scores, method 2 scores, or both? What are the challenges of applying the alternative scoring approach to the combined U.S. operations or U.S. intermediate holding company of a foreign banking organization? What modifications to the alternative scoring approach, if any, should the Board consider and why (e.g., should intercompany transactions be reflected in the calculation of indicators)?

Question 24: If the Board adopted the alternative scoring approach, what would be the advantages or disadvantages of requiring scores to be calculated for the U.S. operations of a

foreign banking organization at a frequency greater than annually, including, for example, requiring scores to be calculated on a quarterly basis?

Question 25: With respect to each category of standards described above, at what level should the method 1 or method 2 score thresholds be set and why? Commenters are encouraged to provide data supporting their recommendations.

Question 26: What other approaches should the Board consider in setting thresholds for tailored prudential standards for foreign banking organizations and why? How would any such approach affect the comparability of requirements across domestic banking organizations and foreign banking organizations?

4. Determination of applicable category of standards

Under the proposal, a foreign banking organization with combined U.S. assets of \$100 billion or more would be required to determine the category of standards that would apply to its combined U.S. operations or U.S. intermediate holding company, as applicable. In order to capture significant changes, rather than temporary fluctuations, in a foreign banking organization's U.S. risk profile, a category of standards would apply to a foreign banking organization's U.S. operations or its U.S. intermediate holding company based on a four-quarter average of the levels for each indicator.⁶² A foreign banking organization would remain subject to a category of standards until it no longer meets the indicators for that category in each of the four most recent calendar quarters, or until the foreign banking organization met the criteria for

⁶² With respect to a foreign banking organization that has reported an indicator for less than four quarters, the proposal would refer to the average of the most recent quarter or quarters. The measurement approach discussed in this section would apply to all standards within a given category, including regulatory and reporting requirements for a foreign banking organization.

another category of standards based on an increase in the value of one or more indicators, averaged over the preceding four calendar quarters. This approach would be consistent with the existing applicability and cessation requirements of the enhanced prudential standards rule.⁶³

If a foreign banking organization becomes subject to a different category of standards, the standards under that category would be effective on the first day of the second quarter following the date on which the foreign banking organization met the criteria for that category of standards. For example, a foreign banking organization that changes from Category IV to Category III standards based on an increase in the value of a risk-based indicator averaged over the first, second, third, and fourth quarters of a calendar year would be subject to Category III standards beginning on April 1 (the first day of the second quarter) of the following year.

Under the proposal, a foreign banking organization could be subject to different categories of standards for its combined U.S. operations and U.S. intermediate holding company. Consider, for example, a foreign banking organization with combined U.S. assets of \$400 billion, cross-jurisdictional activity of \$80 billion at its combined U.S. operations, and a U.S. intermediate holding company with consolidated total assets of \$260 billion and \$45 billion of cross-jurisdictional activity. In this example, the combined U.S. operations of the foreign banking organization would be subject to Category II liquidity and risk-management standards as well as single-counterparty credit limits⁶⁴ because together, the U.S. intermediate holding company and branch and agency network have more than \$75 billion in cross-jurisdictional

⁶³ See *e.g.*, 12 CFR 252.150.

⁶⁴ Single-counterparty credit limits are discussed in section II.D. of this Supplementary Information section.

activity. However, the U.S. intermediate holding company would be subject to Category III capital standards based on its total consolidated assets (which exceed \$250 billion) and lower level of cross-jurisdictional activity.

Question 27: What are the advantages and disadvantages of determining the category of standards applicable to a foreign banking organization's combined U.S. operations or U.S. intermediate holding company on a quarterly basis? Would making this determination on an annual basis would be more appropriate and why?

Question 28: What are the advantages and disadvantages of the proposed transition period for foreign banking organizations that meet the criteria for a different category of standards due to changes in its U.S. risk profile? What would be the advantages or disadvantages of providing additional time to conform to new requirements?

C. Enhanced prudential standards for foreign banking organizations

1. Category II standards

Category II standards would apply to a foreign banking organization with \$700 billion or more in combined U.S. assets, or \$75 billion or more in cross-jurisdictional activity. In view of its complexity, interconnectedness, and the materiality of its U.S. presence, the distress or failure of a foreign banking organization with U.S. operations that would be subject to Category II standards could impose substantial costs on the U.S. financial system and economy. As discussed in section II.B. of this Supplementary Information section, foreign banking organizations with the largest U.S. operations typically have more complex operational and management structures and provide financial services in the United States on a broader range and scale than smaller firms. In addition, foreign banking organizations with U.S. operations that engage in heightened levels of cross-jurisdictional activity present operational complexities and

interconnectivity concerns, and are exposed to a greater diversity of risks as a result of the multiple jurisdictions in which they provide financial services. The risks and operational complexities associated with cross-jurisdictional activity can present significant challenges to the recovery and resolution process.

To address these risks and maintain consistency with the domestic proposal, under this proposal a U.S. intermediate holding company subject to Category II capital standards would continue to submit an annual capital plan, and the Federal Reserve would conduct an assessment of the company's capital plan according to the capital plan rule.⁶⁵ The proposal also would maintain annual supervisory stress testing for these U.S. intermediate holding companies and require company-run stress testing on an annual basis.⁶⁶ In addition, U.S. intermediate holding companies subject to Category II capital standards would continue to report the information required under the existing FR Y-14 reporting forms to inform the Board's supervisory stress test and facilitate review of the firm's capital plan, as well as the ongoing monitoring and supervision of these companies.

The proposal would maintain the enhanced prudential standards rule's existing liquidity risk-management, monthly internal liquidity stress testing, and liquid asset buffer requirements for a foreign banking organization with combined U.S. operations subject to Category II liquidity standards. Daily liquidity data reporting under Form FR 2052a also would apply to a foreign

⁶⁵ 12 CFR 225.8.

⁶⁶ The proposal would remove the mid-cycle company-run stress testing requirement for a U.S. intermediate holding company subject to Category II standards. In the Board's experience, the mandatory mid-cycle stress test provided modest risk-management benefits and limited incremental information to market participants beyond what the annual company-run stress test provides.

banking organization with combined U.S. operations subject to Category II standards. These requirements help to ensure that a foreign banking organization has effective governance and risk management processes to measure and estimate liquidity needs, and sufficient liquid assets to cover risks and exposures and to support activities through a range of conditions. In particular, internal liquidity stress testing, liquidity buffer, and liquidity risk-management requirements help to ensure that a foreign banking organization with large U.S. operations can appropriately manage liquidity risk and withstand disruptions in funding sources.⁶⁷ Consistent with current requirements, for foreign banking organizations with both a U.S. intermediate holding company and a U.S. branch or agency, the foreign banking organization would conduct internal liquidity stress tests separately for each of its U.S. intermediate holding company, the U.S. branch or agency network, and the combined U.S. operations.⁶⁸

The proposal would make changes to the Board's single-counterparty credit limits to align the thresholds for application of these requirements with the proposed thresholds for other enhanced prudential standards and to tailor further the requirements applicable to U.S. intermediate holding companies. Under the proposal, single-counterparty credit limits would apply to the combined U.S. operations of a foreign banking organization subject to Category II

⁶⁷ As discussed in the interagency foreign banking organization capital and liquidity proposal, the implementation of standardized liquidity requirements to complement a firm's own internal liquidity stress testing and buffer requirements would help address liquidity risk.

⁶⁸ The proposal would revise the FR 2052a reporting requirements to require all foreign banking organizations subject to Category II standards to report the FR 2052a on a daily basis (daily reporting requirements would also apply to foreign banking organizations subject to Category III standards that have weighted short-term wholesale funding of \$75 billion or more in respect of their combined U.S. operations). Some foreign banking organizations that would be subject to Category II standards currently report FR 2052a data on a monthly basis. For these firms, the proposal would increase the frequency of reporting requirements under the FR 2052a.

or Category III standards. The proposed revisions to the single-counterparty credit limits rule are discussed in section II.D. of this Supplementary Information section.

Question 29: What modifications, if any, should the Board consider to the proposed Category II prudential standards for foreign banking organizations, and why?

2. Category III standards

Category III standards would apply to a foreign banking organization with combined U.S. assets of \$250 billion or more, or a heightened risk profile as measured based on the level of weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure among its combined U.S. operations.⁶⁹ A foreign banking organization with U.S. operations of this size or risk profile heightens the need for sophisticated capital planning and more intensive oversight through stress testing, as well as sophisticated measures to monitor and manage liquidity risk. For example, U.S. intermediate holding companies that engage in heightened levels of nonbank activities may be exposed to a relatively broader range of risks, and the application of more sophisticated capital planning and stress testing requirements would be appropriate to support those activities. Similarly, a foreign banking organization with heightened levels of off-balance sheet exposure among its combined U.S. operations may be required to fulfill substantial draws on commitments and margin calls on derivatives during times of stress. Rigorous risk management and liquidity monitoring would appropriately support risks associated with these exposures.

⁶⁹ Category III capital standards would apply to a U.S. intermediate holding company with total consolidated assets of \$250 billion or more, or a heightened risk profile based on its level or weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure.

The Board's current prudential standards framework generally applies the same capital standards to all U.S. intermediate holding companies with \$250 billion or more in total consolidated assets.⁷⁰ The proposed framework would further differentiate among foreign banking organizations with \$250 billion or more in combined U.S. assets, consistent with the domestic proposal. In particular, Category II would include standards generally consistent with those developed by the BCBS that are appropriate for very large or complex firms, whereas Category III would include less stringent standards, based on the relatively lower U.S. risk profiles of foreign banking organizations that would be subject to Category III standards.

The proposal would largely maintain the existing capital planning and stress testing standards under the capital plan and enhanced prudential standards rules for U.S. intermediate holding companies that would be subject to Category III capital standards, but would remove the mid-cycle company-run stress testing requirement and require public disclosure of company-run stress test results every other year rather than annually. The Board would continue to conduct supervisory stress testing of these U.S. intermediate holding companies on an annual basis.

In regard to capital planning, a U.S. intermediate holding company subject to Category III capital standards would continue to submit confidential data to the Board using the existing schedule for FR Y-14 reports. Such a U.S. intermediate holding company also would submit an annual capital plan and report the information required under the FR Y-14A. The

⁷⁰ For example, the supplementary leverage ratio, countercyclical capital buffer, and requirement to recognize most elements of accumulated other comprehensive income (AOCI) in regulatory capital generally apply to U.S. intermediate holding companies with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure. In addition, if a U.S. intermediate holding company that meets this threshold has an insured depository institution subsidiary, the U.S. intermediate holding company also is subject to the LCR rule.

FR Y-14 and Y-14A reports are inputs into the supervisory stress test and inform the Board's review of the firm's capital plan, as well as the ongoing monitoring and supervision of these companies. In addition, as part of the internal stress test, a U.S. intermediate holding company must establish and maintain internal processes for assessing capital adequacy under expected and stressful conditions, which represent an important risk management capability for a U.S. intermediate holding company of this size or risk profile.

A U.S. intermediate holding company subject to Category III capital standards would publicly disclose the results of company-run stress tests only once every two years, rather than annually.⁷¹ Because such a U.S. intermediate holding company would continue to submit an annual capital plan (including the results of an internal capital stress test) and would be subject to annual supervisory stress testing, a reduction in the frequency of disclosures related to the company-run stress test should reduce compliance costs without a material increase in safety and soundness or financial stability risks.⁷² Public disclosure of supervisory stress test results would continue to be made on an annual basis.

⁷¹ The company-run stress testing requirement under the enhanced prudential standards rule includes a mandatory public disclosure component, whereas the capital plan rule does not. *Compare* 12 CFR 252.58 *with* 12 CFR 225.8. The proposal would maintain the annual internal stress test requirement under the capital plan rule, but reduce the required frequency of company-run stress testing under the enhanced prudential standards rule to every other year. As a result, in the intervening year between company-run stress tests under the enhanced prudential standards rule, the proposed Category III standards would require a U.S. intermediate holding company to conduct an internal capital stress test only as part of its annual capital plan submission, without required public disclosure.

⁷² Consistent with the domestic proposal, a U.S. intermediate holding company of a foreign banking organizations subject to Category II capital standards would conduct and publicly report the results of a company-run stress test more frequently (annually) than U.S. intermediate holding companies of foreign banking organizations subject to Category III standards (every two

For the reasons described under the discussion of Category II standards, the proposal would maintain existing liquidity risk management, monthly internal liquidity stress testing, and liquidity buffer requirements for the combined U.S. operations of a foreign banking organization subject to Category III liquidity standards. The proposal also would include liquidity data reporting requirements under FR 2052a for a foreign banking organization subject to Category III liquidity standards, and tailor those requirements based on the level of weighted short-term wholesale funding. Some foreign banking organizations that would be subject to Category III standards currently report FR 2052a data for their combined U.S. operations on a monthly basis. However, under the proposal, if the combined U.S. operations of a foreign banking organization have \$75 billion or more in weighted short-term wholesale funding, FR 2052a data would be submitted for each business day.⁷³ Daily reporting is appropriate for a foreign banking organization with heightened levels of weighted short-term wholesale funding, because a firm that relies more on unsecured, less-stable funding relative to deposits typically must rollover liabilities in order to fund its routine activities. Accordingly, short-term wholesale funding can be indicative of a firm that has heightened liquidity risk.

Question 30: What modifications, if any, should the Board consider to the proposed Category III prudential standards for foreign banking organizations, and why?

years), based on the differences in size, cross-jurisdictional activity, complexity, and risk profile indicated by the scoping criteria for each of these categories. 83 FR 66024.

⁷³ FR 2052a data would be submitted on a monthly basis for combined U.S. operations of a foreign banking organization subject to Category III standards with less than \$75 billion in weighted short-term wholesale funding.

Question 31: What are the advantages and disadvantages of reducing the frequency of the company-run stress test and related disclosures to every other year for a U.S. intermediate holding company subject Category III standards?

3. Category IV standards

Under the proposal, Category IV standards would apply to foreign banking organizations with combined U.S. assets of \$100 billion or more that do not meet the criteria for Categories II or III with respect to their combined U.S. operations or U.S. intermediate holding companies (as applicable). Based on an analysis of the crisis experience of large domestic banking organizations, the Board found that the failure or distress of a U.S. banking organization that meets or exceeds the thresholds for Category IV standards, while not likely to have as great of an impact on U.S. financial stability as the failure or distress of a firm subject to Category II or III standards, could nonetheless have an amplified negative effect on economic growth and employment relative to the failure or distress of smaller firms. Notwithstanding structural differences between the U.S. operations of foreign banking organizations and domestic firms, the size and risk profile of such U.S. operations could present similar risk to financial stability and safety and soundness as those presented by U.S. firms.

Relative to current requirements under the enhanced prudential standards rule, the proposed Category IV standards would maintain core elements of the capital and liquidity standards, and tailor these requirements to reflect the lower risk profile and lesser degree of complexity of a foreign banking organization subject to this category of standards.

The proposal would tailor the application of capital standards for U.S. intermediate holding companies subject to Category IV capital standards, consistent with the domestic proposal. Specifically, the proposal would reduce the frequency of supervisory stress testing to

every other year, and eliminate the requirement to conduct and publicly report the results of a company-run stress test. A supervisory stress test cycle of this frequency would be consistent with the domestic proposal and appropriate for the risk profile of a U.S. intermediate holding company subject to this category of standards. The proposal would maintain the existing FR Y-14 reporting for these U.S. intermediate holding companies in order to provide the Board with the data it needs to conduct supervisory stress testing and inform the Board's ongoing monitoring and supervision of these companies.⁷⁴

The Board continues to expect a U.S. intermediate holding company of a foreign banking organization subject to Category IV capital standards to have a sound capital position and sound capital planning practices. Capital is central to the ability of a U.S. intermediate holding company to absorb unexpected losses and continue to lend to creditworthy businesses and consumers. To be resilient under a range of conditions, a U.S. intermediate holding company must maintain sufficient levels of capital to support the risks associated with its exposures and activities. As a result, processes for managing and allocating capital resources are critical to a company's financial strength and resiliency, and also to the stability and effective functioning of the U.S. financial system.

In April 2018, the Board issued a proposal to apply stress buffer requirements to large bank holding companies and U.S. intermediate holding companies.⁷⁵ As part of a future capital

⁷⁴ The Board plans to separately propose reductions in FR Y-14 reporting requirements for firms subject to Category IV standards as part of the capital plan proposal at a later date, to align with changes the Board would propose to the capital plan rule.

⁷⁵ See Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules, 83 FR 18160 (proposed April 25, 2018).

plan proposal, the Board intends to propose that the stress buffer requirements under Category IV would be calculated in a manner that aligns with the proposed two-year supervisory stress testing cycle. Specifically, the Board plans to propose that the stress buffer requirements would be updated annually to reflect planned distributions, but only every two years to reflect stress loss projections.⁷⁶

As part of the capital plan proposal, the Board intends to maintain the requirement that the firm submit an annual capital plan, but provide greater flexibility to U.S. intermediate holding companies to develop their annual capital plans. Under such an approach, Category IV standards could require a capital plan to include estimates of revenues, losses, reserves, and capital levels based on a forward-looking analysis, taking into account the U.S. intermediate holding company's idiosyncratic risks under a range of conditions; however, it would not require submission of the results of company-run stress tests on the FR Y-14A. This change would align with the proposal to remove company-run stress testing requirements from Category IV standards under this proposal. The Board also intends at a future date to revise its guidance relating to capital planning to align with the proposed categories of standards and to allow more flexibility in how all firms subject to Category IV standards perform capital planning.

Category IV liquidity standards would include liquidity risk management, stress testing, and buffer requirements. The combined U.S. operations of a foreign banking organization that

⁷⁶ Under the capital plan rule, the Board may require a U.S. intermediate holding company to resubmit its capital plan if there has been, or will likely be, a material change in the firm's risk profile, financial condition, or corporate structure. *See* 12 CFR 225.8(e)(4). In the event of a resubmission, the Board may conduct a quantitative evaluation of that capital plan. As noted in the April 2018 proposal, the Board may recalculate a firm's stress buffer requirements whenever the firm chooses or is required to resubmit its capital plan. 83 FR 18171.

would be subject to Category IV standards typically do not present the risks to U.S. financial stability that are associated with size, cross-jurisdictional activity, nonbank assets, and off-balance sheet exposure. Accordingly, the proposal would reduce the frequency of required internal liquidity stress testing to at least quarterly, rather than monthly.⁷⁷ Under the proposed Category IV standards, a foreign banking organization would continue to be required to maintain a liquidity buffer at its U.S. intermediate holding company that is sufficient to meet the projected net stressed cash-flow need over the 30-day planning horizon under the internal liquidity stress test and a liquidity buffer at its U.S. branches and agencies that is sufficient to meet projected needs over the first fourteen days of a stress test with a 30-day planning horizon.

The proposal also would modify certain liquidity risk-management requirements under Category IV. First, the combined U.S. operations of a foreign banking organization subject to this category of standards would calculate collateral positions on a monthly basis, rather than weekly. Second, the proposal would clarify that risk limits established to monitor sources of liquidity risk must be consistent with the established liquidity risk tolerance for the combined U.S. operations a foreign banking organization and appropriately reflect their risk profile. Importantly, limits established in accordance with the proposal would not need to consider activities or risks that are not relevant to the combined U.S. operations of a foreign banking organization. Third, while the proposal would continue to require a foreign banking organization subject to Category IV standards to establish and maintain procedures for monitoring intraday

⁷⁷ Combined U.S. operations of a foreign banking organization subject to Category IV standards would remain subject to monthly FR 2052a liquidity reporting requirements.

risk that are consistent with the risk profile of its combined U.S. operations, Category IV standards would not specify any required elements of those procedures.

Question 32: What modifications, if any, should the Board consider to the proposed Category IV standards, and why?

Question 33: What are the advantages and disadvantages of conducting a supervisory stress test every other year, rather than annually, and eliminating the company-run stress testing requirement for purposes of Category IV standards? What would be the advantages or disadvantages of the Board conducting supervisory stress tests for these U.S. intermediate holding companies on a more frequent basis? How should the Board consider providing U.S. intermediate holding companies with additional flexibility in their capital plans?

D. Single-counterparty credit limits

Section 165(e) of the Dodd-Frank Act requires the Board to establish single-counterparty credit limits for large U.S. and foreign banking organizations in order to limit the risks that the failure of any individual firm could pose to other firms subject to such requirements.⁷⁸ Under the Board's enhanced prudential standards framework, single-counterparty credit limits apply to the combined U.S. operations of a foreign banking organization with \$250 billion or more in total consolidated assets, and separately to any subsidiary U.S. intermediate holding company of such a firm with total consolidated assets of \$50 billion or more.⁷⁹

The single-counterparty credit limits that apply to those foreign banking organizations and their U.S. intermediate holding companies increase in stringency in a manner commensurate

⁷⁸ 12 U.S.C. 5365(e).

⁷⁹ 12 CFR 252.72(a).

with their size and risk profile. All foreign banking organizations are subject to an aggregate net credit exposure limit to any single counterparty equal to 25 percent of tier 1 capital. In addition, if a foreign banking organization has the characteristics of a “major foreign banking organization,”⁸⁰ it also is subject to an aggregate net credit exposure limit to any “major counterparty”⁸¹ equal to 15 percent of tier 1 capital.⁸² These requirements apply to the combined U.S. operations of a foreign banking organization and are determined with respect to the foreign banking organization’s tier 1 capital. Alternatively, a foreign banking organization may comply with these requirements by certifying that it meets, on a consolidated basis, standards established by its home country supervisor that are consistent with the BCBS large exposure standard.⁸³

For those foreign banking organizations’ U.S. intermediate holding companies, the Board’s single-counterparty credit limits apply a similar approach. For a U.S. intermediate holding company with total consolidated assets of at least \$50 billion and less than \$250 billion, its aggregate net credit exposure to a single counterparty cannot exceed 25 percent of total regulatory capital plus the balance of its allowance for loan and lease losses that is not includable

⁸⁰ “Major foreign banking organization” means a top-tier foreign banking organization that has the characteristics of a global systemically important banking organization under the global methodology, or is identified by the Board as a major foreign banking organization. 12 CFR 252.171(z).

⁸¹ “Major counterparty” means a U.S. GSIB, a foreign banking organization that is a global systemically important banking organization, and any nonbank financial company supervised by the Board. 12 CFR 252.171(y).

⁸² 12 CFR 252.172(c).

⁸³ 12 CFR 252.172(d). *See also* BCBS, Supervisory Framework for Measuring and Controlling Large Exposures (April 2014). The large exposures standard establishes an international single-counterparty credit limit framework for internationally active banks.

in tier 2 capital.⁸⁴ In comparison, a U.S. intermediate holding company with total consolidated assets of at least \$250 billion and less than \$500 billion is subject to an aggregate net credit exposure limit of 25 percent of tier 1 capital.⁸⁵ For “major U.S. intermediate holding companies,” the rule applies the same aggregate limits that apply to a major foreign banking organization – (i) an aggregate net credit exposure limit to any single counterparty equal to 25 percent of tier 1 capital,⁸⁶ and (ii) an aggregate net credit exposure limit to a “major counterparty” equal to 15 percent of tier 1 capital.⁸⁷

Other provisions of the single-counterparty credit limits apply only to U.S. intermediate holding companies with total consolidated assets of \$250 billion or more. Specifically, the current rule sets forth requirements for the treatment of exposures to securitization vehicles, investment funds, and other special purpose vehicles (collectively, SPVs),⁸⁸ and the application of economic interdependence and control relationship tests to aggregate connected counterparties⁸⁹ for U.S. intermediate holding companies that meet or exceed this asset size threshold. In addition, U.S. intermediate holding companies with \$250 billion or more in total

⁸⁴ 12 CFR 252.172(a).

⁸⁵ *Id.* at 252.172(b)(1).

⁸⁶ *Id.*

⁸⁷ *Id.* at 252.172(c)(1).

⁸⁸ *Id.* at 252.175. For a discussion of the treatment of exposures to SPVs under the single-counterparty credit limit rule, *see* “Single-Counterparty Credit Limits for Bank Holding Companies and Foreign Banking Organizations,” 83 FR 38,460, 38,480–82 (Aug. 6, 2018).

⁸⁹ 12 CFR 252.176. For a discussion of the economic interdependence and control relationship tests to aggregate connected counterparties under the single-counterparty credit limit rule, *see id.* at 38,482–84.

consolidated assets must comply with the rule on a daily basis as of the end of each business day and submit a quarterly report to demonstrate its compliance.⁹⁰

The proposal would revise the Board's single-counterparty credit limits to align the thresholds for application of these requirements with the proposed thresholds for other enhanced prudential standards. Under the proposal, single-counterparty credit limits would apply to the combined U.S. operations of a foreign banking organization subject to Category II or Category III standards or of a foreign banking organization with \$250 billion or more in total consolidated assets. A foreign banking organization would continue to be able to comply with the single-counterparty credit limits by certifying to the Board that it meets comparable home-country standards that apply on a consolidated basis.

The proposal also would apply single-counterparty credit limits separately to a U.S. intermediate holding company of a foreign banking organization subject to Category II or Category III standards but would modify the requirements currently applicable to those U.S. intermediate holding companies. First, the proposal would eliminate the requirements applicable to major U.S. intermediate holding companies and instead subject all U.S. intermediate companies to a uniform aggregate net credit exposure limit to a single counterparty equal to 25 percent of tier 1 capital. In addition, the proposal would remove the bifurcated treatment under the current rule regarding exposures to SPVs and the application of the economic interdependence and control relationship tests, as well as compliance requirements. Under the proposal, these requirements would apply to all U.S. intermediate holding companies as they

⁹⁰ 12 CFR 252.178(a)(1) and (a)(3). A U.S. intermediate holding company with less than \$250 billion in total consolidated assets must comply with single-counterparty credit limits as of the end of each quarter. *See* 12 CFR 252.178(a)(2).

apply currently to U.S. intermediate holding companies with \$250 billion or more in total consolidated assets. These revisions are intended to more appropriately balance the single-counterparty credit limits that apply to U.S. intermediate holding companies by maintaining the core aggregate net credit exposure limit and extending the applicability of other requirements that are integral to the framework. While these revisions would increase the compliance burden relative to the single-counterparty credit limits currently applicable to certain U.S. intermediate holding companies with less than \$250 billion in assets, they are consistent with the focus of the post-crisis reform framework as it relates to reducing interconnectivity within the financial system and the maintenance of higher-quality forms of capital and, therefore, could help to mitigate risks to U.S. financial stability. In particular, the Board has stated that basing single-counterparty credit limits on tier 1 capital sets the limits relative to the company's ability to absorb losses on a going-concern basis and acknowledges market participants' focus on higher-quality capital during the financial crisis.⁹¹

The proposal would not apply single-counterparty credit limits to the combined U.S. operations of foreign banking organizations subject to Category IV standards unless such a foreign banking organization has \$250 billion or more in total consolidated assets, as required by federal law.⁹² In addition, the proposal only would apply single-counterparty credit limits to U.S. intermediate holding companies of foreign banking organizations subject to Category II or Category III standards. As discussed above, the proposed indicators for Category II and Category III represent measures of vulnerability to safety and soundness and financial stability

⁹¹ See 83 FR 38460, 38471 (Aug. 6, 2018).

⁹² See *supra* note 71.

risks, which may be exacerbated if a foreign banking organization has combined U.S. operations with outsized credit exposure to a single counterparty. Accordingly, application of these limits would help to mitigate this risk. In addition, foreign banking organizations with combined U.S. operations that have high reliance on weighted short-term wholesale funding or a significant concentration of nonbank assets or off-balance sheet exposure often also have a high degree of interconnectedness with other market participants and may be likely to transmit their distress or failure to those participants. Single-counterparty credit limits may reduce the extent of that transmission.⁹³ Foreign banking organizations with combined U.S. operations that would be subject to Category IV standards typically do not present these risks.

Question 34: What are the advantages and disadvantages of the proposed revisions to the applicability requirements for single-counterparty credit limits and the removal of aggregate net credit exposure limits applicable to major U.S. intermediate holding companies?

Question 35: What are the advantages and disadvantages of extending to U.S. intermediate holding companies with less than \$250 billion in total consolidated assets that are subject to Category II or Category III standards the requirements under the single-counterparty credit limits framework regarding the treatment of exposures to SPVs and the application of the economic interdependence and control relationship tests, as well as heightened compliance requirements?

⁹³ The limitation on a U.S. intermediate holding company's exposure to a single counterparty also may reduce the likelihood that distress at another firm would be transmitted to the U.S. intermediate holding company.

E. Risk-management and risk-committee requirements

Sound enterprise-wide risk management supports the safe and sound operation of banking organizations and reduces the likelihood of their material distress or failure, and thus promotes U.S. financial stability. Section 165(h) of the Dodd-Frank Act requires certain publicly traded bank holding companies, which includes foreign banking organizations, to establish a risk committee that is “responsible for the oversight of the enterprise-wide risk management practices” that meets other statutory requirements.⁹⁴ EGRRCPA raised the threshold for mandatory application of the risk-committee requirement from publicly traded bank holding companies with \$10 billion in total consolidated assets to publicly traded bank holding companies with \$50 billion or more in total consolidated assets. Additionally, the Board has discretion to apply risk-committee requirements to publicly traded bank holding companies with under \$50 billion in total consolidated assets if the Board determines doing so is necessary or appropriate to promote sound risk management practices.

Under the current enhanced prudential standards rule, all foreign banking organizations with total consolidated assets of \$50 billion or more, and publicly traded foreign banking organizations with at least \$10 billion in total consolidated assets, must maintain a risk committee that meets specified requirements.⁹⁵ These requirements vary based on a foreign banking organization’s total consolidated assets and combined U.S. assets. Foreign banking organizations with at least \$10 billion but less than \$50 billion in total consolidated assets, as well as foreign banking organizations with total consolidated assets of \$50 billion or more but

⁹⁴ 12 U.S.C. 5363(h).

⁹⁵ See 12 CFR 252.144, 252.155, and subpart M.

less than \$50 billion in combined U.S. assets, must annually certify to the Board that they maintain a qualifying committee that oversees the risk management policies of the combined U.S. operations of the foreign banking organization. In contrast, foreign banking organizations with total consolidated assets of \$50 billion or more and \$50 billion or more in combined U.S. assets are subject to more detailed risk-committee and risk-management requirements, including the requirement to appoint a U.S. chief risk officer.⁹⁶

Consistent with EGRRCPA, the proposal would raise the total consolidated asset threshold for application of the risk-committee requirement to foreign banking organizations and would not change the substance of the risk-committee requirement for these firms. Maintaining these risk-committee requirements for foreign banking organizations with total consolidated assets of \$50 billion or more would help support the safety and soundness of a foreign banking organization's U.S. operations in a manner commensurate with its U.S. risk profile. Under the proposal, foreign banking organizations with at least \$50 billion but less than \$100 billion in total consolidated assets, as well as foreign banking organizations with total consolidated assets of \$100 billion or more but less than \$50 billion in combined U.S. assets, would be required to maintain a risk committee and make an annual certification to that effect. Additionally, foreign banking organizations with total consolidated assets of \$100 billion or more and \$50 billion or more in combined U.S. assets would be required to comply with the more detailed risk-committee and risk-management requirements in the Board's enhanced prudential standards rule (Regulation YY), which include the chief risk officer requirement. The proposal would

⁹⁶ 12 CFR 252.155.

eliminate the risk-committee requirements that apply for foreign banking organizations with less than \$50 billion in total consolidated assets.

Similar to its approach for domestic banking organizations, the Board historically has assessed the adequacy of risk management of foreign banking organizations through the examination process as informed by supervisory guidance; the requirements in section 165(h) of the Dodd-Frank Act supplement, but do not replace, the Board's existing risk management guidance and supervisory expectations.⁹⁷ Given the activities and risk profiles of foreign banking organizations with less than \$50 billion in total consolidated assets, the Board expects to review these firms' risk management practices through the supervisory process. The Board would continue to expect foreign banking organizations with less than \$50 billion in total consolidated assets to establish risk management processes and procedures commensurate with their risks.

F. Enhanced prudential standards for foreign banking organizations with a smaller U.S. presence

The current regulatory framework for foreign banking organizations tailors the application of enhanced prudential standards based on the size and complexity of a foreign banking organization's U.S. operations. Under the Board's current enhanced prudential standards rule, foreign banking organizations with at least \$10 billion but less than \$50 billion in total consolidated assets are subject to company-run stress testing requirements in subpart L and the risk-management and risk-committee requirements in subpart M, the latter of which is

⁹⁷ See *Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations*, 79 FR 17239, 17247 (Mar. 27, 2014).

described above.⁹⁸ Additionally, foreign banking organizations with at least \$50 billion in total consolidated assets but less than \$50 billion in combined U.S. assets are subject to risk-based and leverage capital, risk-management and risk-committee, liquidity risk management, and capital stress testing requirements in subpart N of the Board's enhanced prudential standards rule.⁹⁹ The Board largely requires the foreign banking organization's compliance with home-country capital and liquidity standards at the consolidated level, and imposes certain risk-management requirements that are specific to the U.S. operations of a foreign banking organization.

The proposal generally adopts this approach for foreign banking organizations with a limited U.S. presence; however, it would also implement targeted changes to reduce the stringency of certain requirements applicable to these firms, as described below. It would also maintain certain risk-management and capital requirements for a U.S. intermediate holding company of a foreign banking organization that does not meet the thresholds under the proposal for the application of Category II, Category III or Category IV standards.

1. Enhanced prudential standards for foreign banking organizations with less than \$50 billion in total consolidated assets

The proposal would eliminate risk-committee and risk-management requirements for foreign banking organizations with less than \$50 billion in total consolidated assets, as described above.

⁹⁸ The company-run stress testing requirements in subpart L also currently apply to foreign savings and loan holding companies with at least \$10 billion in total consolidated assets. *See* 12 CFR 252.120 *et seq.*

⁹⁹ 12 CFR 252.140 *et seq.*

In addition, consistent with EGRRCPA, the proposal would eliminate subpart L of the Board's enhanced prudential standards rule, which currently prescribes company-run stress testing requirements for foreign banking organizations with more than \$10 billion but less than \$50 billion in total consolidated assets.¹⁰⁰ EGRRCPA raised the threshold for mandatory application of company-run stress testing requirements from financial companies with more than \$10 billion in total consolidated assets to financial companies with more than \$250 billion in total consolidated assets. As a result, foreign banking organizations with less than \$50 billion in total consolidated assets would no longer be required to be subject to a home-country capital stress testing regime, or if the foreign banking organization was not subject to qualifying home country standards, additional stress testing requirements in subpart L.¹⁰¹

2. *Enhanced prudential standards for foreign banking organizations with \$100 billion or more in total consolidated assets but less than \$100 billion in combined U.S. assets*

Under the Board's existing enhanced prudential standards rule, subpart N applies to foreign banking organizations with \$50 billion or more in total consolidated assets but less than \$50 billion in combined U.S. assets. Currently, the standards in subpart N – which include risk-

¹⁰⁰ Subpart L also currently applies to foreign savings and loan holding companies with more than \$10 billion in total consolidated assets. *Id.*

¹⁰¹ For foreign savings and loan holding companies, the proposal would apply company-run stress testing requirements to foreign savings and loan holding companies with more than \$250 billion in total consolidated assets. These requirements would be the same as those that currently apply in subpart L of the enhanced prudential standards rule. *See id.* Raising the asset size threshold for application of company-run stress testing requirements for foreign savings and loan holding companies to more than \$250 billion in total consolidated assets would be consistent with section 165(i)(2) of the Dodd-Frank Act, as amended by EGRRCPA. Under this proposal, company-run stress test requirements for foreign savings and loan holding companies would be in the new subpart R of Regulation LL.

based and leverage capital, liquidity risk management, and capital stress testing requirements – largely require compliance with home-country standards.

Consistent with EGRRCPA, the proposal would raise the threshold for application of subpart N to foreign banking organizations with \$100 billion or more in total consolidated assets but less than \$100 billion in combined U.S. assets. Under the proposed rule, the requirements under subpart N would continue to largely defer to home-country standards and remain generally unchanged from the requirements that apply currently to a foreign banking organization with a limited U.S. presence, including liquidity risk management requirements, risk-based and leverage capital requirements, and capital stress testing requirements. However, consistent with the proposed stress testing frequency for smaller and less complex domestic holding companies, the proposal would require foreign banking organizations with total consolidated assets of less than \$250 billion that do not meet the criteria for application of Category II, Category III, or Category IV standards to be subject to a home-country supervisory stress test on a biennial basis, rather than annually as under the current framework.

As mentioned above in section II.E., risk-committee requirements in subpart N would be further differentiated based on combined U.S. assets. Under the proposal, foreign banking organizations with \$100 billion or more in total consolidated assets but less than \$50 billion in combined U.S. assets would be required to certify on an annual basis that they maintain a qualifying risk committee that oversees the risk management policies of the combined U.S. operations of the foreign banking organization. In contrast, foreign banking organizations with \$100 billion or more in total consolidated assets, and at least \$50 billion but less than \$100 billion in combined U.S. assets would be subject to more detailed risk-committee and risk-management requirements, which include the chief risk officer requirement. These more

detailed risk-committee requirements would be the same requirements that apply to foreign banking organizations with \$100 billion or more in combined U.S. assets.

The proposal would not revise the \$50 billion U.S. non-branch asset threshold for the U.S. intermediate holding company formation requirement. This requirement has resulted in substantial gains in the resilience and safety and soundness of foreign banking organizations' U.S. operations. Therefore, a foreign banking organization subject to subpart N (i.e., one with less than \$100 billion in combined U.S. assets) may have or could be required to form a U.S. intermediate holding company. A U.S. intermediate holding company of such a foreign banking organization would not be subject to Category II, Category III, or Category IV capital standards, but it would remain subject to the risk-based and leverage capital requirements that apply to a U.S. bank holding company of a similar size and risk profile under the Board's capital rule.¹⁰² Similarly, a U.S. intermediate holding company of a foreign banking organization subject to subpart N would be required to comply with risk-management and risk-committee requirements. As under the current rule, under the proposal the risk committee of the U.S. intermediate holding company may also serve as the U.S. risk committee for the foreign banking organization's combined U.S. operations.

G. Technical changes to the regulatory framework for foreign banking organizations and domestic banking organizations

¹⁰² 12 CFR part 217. As discussed in the interagency foreign banking organization capital and liquidity proposal, such a U.S. intermediate holding company would be subject to the generally applicable risk-based and leverage capital requirements.

The proposal would make several technical changes and clarifying revisions to the Board's enhanced prudential standards rule. In addition to any defined terms described previously in this Supplementary Information section, the proposal would add defined terms for foreign banking organizations with combined U.S. operations subject to Category II, III, or IV standards, defined as "Category II foreign banking organizations", "Category III foreign banking organizations", or "Category IV foreign banking organizations", respectively. Similarly, the proposal would add defined terms for "Category II U.S. intermediate holding companies", "Category III U.S. intermediate holding companies", and "Category IV U.S. intermediate holding companies". The addition of these terms would facilitate the requirements for application of enhanced prudential standards under the category framework set forth in this proposal.

The proposal would revise the requirements for establishment of a U.S. intermediate holding company to eliminate the requirement to submit an implementation plan. The implementation plan requirement was intended to facilitate initial compliance with the U.S. intermediate holding company requirement. To assess compliance with the U.S. intermediate holding company requirement under the proposal, information would be requested through the supervisory process. Such information could include information on the U.S. subsidiaries of the foreign banking organization that would be transferred, a projected timeline for the structural reorganization, and a discussion of the firm's plan to comply with the enhanced prudential standards that would be applicable to the U.S. intermediate holding company.

The proposal also would make conforming amendments to the process for requesting an alternative organizational structure for a U.S. intermediate holding company, as well as clarify that a foreign banking organization may submit a request for an alternative organizational

structure in the context of a reorganization, anticipated acquisition, or prior to formation of a U.S. intermediate holding company. In light of the requests received under this section following the initial compliance with the U.S. intermediate holding company requirement, the time period for the Board's expected action would be shortened from 180 days to 90 days. These amendments would apply to a U.S. intermediate holding company formed under subpart N or subpart O.

As discussed above, capital requirements would apply to a U.S. intermediate holding company based on its risk profile, while other requirements would be based on the risk profile of the combined U.S. operations of a foreign banking organization. Subpart O of Regulation YY currently provides that a foreign banking organization that forms two or more U.S. intermediate holding companies would meet any threshold governing applicability of particular requirements by aggregating the total consolidated assets of the U.S. intermediate holding companies. The proposal would not change this aggregation requirement, but would amend the requirement to consider the risk-based indicators discussed above.

In addition, the proposal would provide a reservation of authority to permit a foreign banking organization to comply with the requirements of Regulation YY through a subsidiary foreign bank or company of the foreign banking organization. In making this determination, the Board would take into consideration the ownership structure of the foreign banking organization, including whether the foreign banking organization is owned or controlled by a foreign government; (2) whether the action would be consistent with the purposes of this part; and (3) any other factors that the Board determines are relevant. For example, if top-tier foreign banking organization is a sovereign wealth fund that controls a U.S. bank holding company, with prior approval of the Board the U.S. bank holding company could comply with the requirements

established under Regulation YY instead of the sovereign wealth fund, provided that doing so would not raise significant supervisory or policy issues and would be consistent with the purposes of section 165. The reservation of authority is intended to provide additional flexibility to address certain foreign banking organization structures, as well as to provide clarity and reduce burden for these institutions.

The proposal also would amend Regulation YY to eliminate transition and initial applicability provisions that were relevant only for purposes of the initial adoption and implementation of the enhanced prudential standards framework.

For both foreign and domestic banking organizations, the Board is soliciting comment on whether to more closely align the assets that qualify as highly liquid assets in the enhanced prudential standards rule¹⁰³ with HQLA under the current LCR rule.¹⁰⁴

Specifically, the enhanced prudential standards rule requires certain large foreign and domestic banking organizations to hold buffers of highly liquid assets. The rule defines highly liquid assets to include cash, certain securities issued or guaranteed by the U.S. government or a U.S. government-sponsored enterprise, and other assets that a firm demonstrates to the Board's satisfaction meet specific liquidity criteria.¹⁰⁵

¹⁰³ 12 CFR 252.35(b) and 12 CFR 252.157(c).

¹⁰⁴ *See* Liquidity Coverage Ratio: Liquidity Risk Measurement Standards, 79 FR 61440, 61450 (Oct. 10, 2014), codified at 12 CFR part 50 (OCC), 12 CFR part 249 (Board), and 12 CFR part 329 (FDIC). For the definition of HQLA under the Board's LCR rule, *see* 12 CFR 249.20.

¹⁰⁵ *Id.*

The LCR rule describes assets that are HQLA that may be used by a firm to meet its net cash outflow amount.¹⁰⁶ HQLA are expected to be easily and immediately convertible into cash with little or no expected loss of value during a period of stress.¹⁰⁷ Certain HQLA are subject to additional, asset-specific requirements, including, for example, that the assets be liquid and readily marketable.¹⁰⁸

When the Board adopted the enhanced prudential standards rule in 2014, the Board stated that HQLA under the then-proposed LCR rule would be liquid under most scenarios, but a covered company would still be required to demonstrate to the Board that these assets meet the criteria for highly liquid assets set forth in the enhanced prudential standards rule.¹⁰⁹ After several years of supervising firms that are subject to the enhanced prudential standards rule and LCR rule, the Board is considering whether it would be appropriate to expand the list of enumerated highly liquid assets to include certain assets that are HQLA (potentially reflecting operational requirements of the LCR rule), or otherwise adjust the definition of highly liquid assets to align with the LCR rule. Under this approach, a banking organization would no longer be required to obtain a determination from the Board for assets that are HQLA, as those assets would be enumerated as highly liquid assets in Regulation YY.

Question 36: How, if at all, should the Board adjust the current definition of highly liquid assets in 12 CFR 252.35(b)(3) and 252.157(c)(7) of the enhanced prudential standards

¹⁰⁶ 12 CFR 50.20 (OCC), 12 CFR 249.20 (Board), and 12 CFR 329.20 (FDIC).

¹⁰⁷ See 79 FR at 61450.

¹⁰⁸ 12 CFR 50.20 (OCC), 12 CFR 249.20 (Board), and 12 CFR 329.20 (FDIC).

¹⁰⁹ See 79 FR 17259-60 (Oct. 10, 2014).

rule to improve alignment with the definition of HQLA? Should the enumerated list of highly liquid assets be expanded to include any or all of certain categories of HQLA (e.g., level 1 liquid assets, all level 1 and level 2A liquid assets, certain level 1 liquid assets, certain level 2A liquid assets, etc.) or certain assets that are HQLA (e.g., sovereign bonds that are assigned a zero percent risk weight under the Board's capital regulation)? Should “cash” in the enhanced prudential standards rule be clarified to mean Reserve Bank balances and foreign withdrawable reserves, to more closely align with the enumerated list of level 1 liquid assets that are not securities in the LCR rule?

Question 37: What are the advantages and disadvantages of incorporating into the definition of highly liquid assets other requirements of the LCR rule related to HQLA, including, for example, the requirements for an asset to be “eligible HQLA,” the haircuts applied to HQLA, or the quantitative limits on the composition of the HQLA amount?¹¹⁰

Question 38: If a firm’s HQLA satisfy the requirements in the LCR rule to be eligible HQLA,¹¹¹ what are the advantages and disadvantages of requiring the firm to separately demonstrate that the HQLA meet the other requirements in the enhanced prudential standards rule for highly liquid assets?¹¹² What would be the advantages and disadvantages of adding other requirements for highly liquid assets in the enhanced prudential standards rule, including a requirement that a firm take into account potential conflicts to a business or risk management strategy stemming from the monetization of these assets?

¹¹⁰ 12 CFR 249.21 and 249.22.

¹¹¹ See 12 CFR 50.22 (OCC); 12 CFR 249.22 (Board); 12 CFR 329.50 (FDIC).

¹¹² 12 CFR 252.35(b)(3) and 252.157(c)(7).

In addition, the proposal would amend the internal liquidity stress testing requirements to provide a banking organization with notice and an opportunity to respond if the Board determined that the banking organization must change the frequency of its internal liquidity stress testing. The proposed procedures would allow a banking organization to respond to the Board's determination before such requirement takes effect. The proposed procedures are consistent with other similar notice procedures in Regulation YY. The proposed changes would help ensure that the internal liquidity stress tests conducted by a banking organization are consistent with that banking organization's liquidity risk profile.¹¹³

For domestic bank holding companies, the proposal would amend the Board's GSIB surcharge rule to require a bank holding company subject to Category III standards to compute its method 1 score on an annual basis to determine whether it is a U.S. GSIB. Currently, the Board's GSIB surcharge rule applies only to a domestic bank holding company that is an advanced approaches Board-regulated institution (a bank holding company with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure), as a bank holding company that does not meet these thresholds is less likely to pose heightened risks to U.S. financial stability.¹¹⁴

In the domestic interagency proposal, the Board proposed to revise the definition of advanced approaches Board-regulated institution to include a bank holding company that is identified as a U.S. GSIB or a bank holding company that has either \$700 billion in total

¹¹³ The proposed procedures would not limit the authority of the Board under any other provision of law or regulation to take supervisory or enforcement action, including action to address unsafe or unsound practices or conditions, deficient liquidity levels, or violations of law.

¹¹⁴ See 12 CFR 217.400(b)(1). See 80 FR 49082 (August 14, 2015).

consolidated assets or \$75 billion in cross-jurisdictional activity. The Board did not address whether a Category III banking organization would need to calculate its method 1 score in the domestic proposal or the domestic interagency proposal. As noted by the Board in the domestic proposal, Category III standards would apply to domestic bank holding companies that could pose heightened risks to U.S financial stability and would further the safety and soundness of a bank holding company of such size and risk profile.¹¹⁵ Accordingly, because of the risk profile of these firms, the Board is proposing to revise the GSIB surcharge rule to require Category III banking organizations to calculate their method 1 scores annually. The proposed change would not increase the number of firms that currently calculate their method 1 GSIB score annually, as all proposed Category III domestic bank holding companies are advanced approaches Board-regulated institutions under the Board's existing GSIB surcharge rule.

Question 39: How could the Board further improve the structure of the enhanced prudential standards framework in Regulation YY and proposed prudential standards in Regulation LL? For example, would providing all definitions under one section facilitate compliance with the framework? Are there other structural or technical changes to Regulation YY and Regulation LL the Board should consider and, if so, why? Are there other clarifications to Regulation YY that the Board should consider and, if so, how and why? For example, are there defined terms that could be further clarified?

Question 40: What are the advantages or disadvantages of providing foreign banking organizations additional flexibility in complying with the Board's risk-committee requirements? What, if any, additional flexibility should the Board provide to foreign banking organizations

¹¹⁵ 83 FR 61408, 61413 (November 29, 2018).

with \$50 billion or more in combined U.S. assets to maintain their risk committees at entities other than at the top-tier foreign banking organization or at the foreign banking organization's U.S. intermediate holding company? What alternative structures should the Board consider? What factors should the Board consider in determining whether to provide foreign banking organizations with additional flexibility or permit an alternative structure in complying with the risk-committee requirements? In particular, to what extent should the Board consider (a) the scope of the risk committee's oversight of the combined U.S. operations of the foreign banking organization; and (b) the reporting lines from the risk committee to the global board of directors of the foreign banking organization?

Question 41: What are the advantages or disadvantages of requiring a domestic bank holding company subject to Category III standards to compute its method 1 score? What would be the advantages or disadvantages of the Board, instead of the bank holding companies subject to the GSIB surcharge rule, computing the method 1 scores for all, or some, bank holding companies subject to the GSIB surcharge rule?

III. Proposed reporting changes

To accommodate the proposed revisions to the framework for determining the applicability of enhanced prudential standards to foreign banking organizations, the proposal would make various changes to related reporting forms. Specifically, the proposal would amend the FR Y-7, FR Y-7Q, FR Y-9C, FR Y-14, FR Y-15, and FR 2052a.

The Board is proposing to revise Item 5 on the FR Y-7, Regulation YY Compliance for the Foreign Banking Organization (FBO), to align the reporting form with the applicability thresholds set forth in this proposal and other regulatory changes that are consistent with the

Board's July 2018 statement concerning EGRRCPA.¹¹⁶ Specifically, Item 5(a) would be amended to apply only to foreign savings and loan holding companies with more than \$250 billion in total consolidated assets, and would assess compliance with the capital stress testing requirements under proposed section 238.162 of the Board's Regulation LL, as revised under this proposal. Items 5(b) and 5(c) would continue to assess compliance with the risk committee requirements in sections 252.132(a) and 252.144(a) of the Board's Regulation YY, respectively, but the descriptions for each Item would be updated to conform to the asset size thresholds under this proposal. For Item 5(b), the description would also eliminate language referring to foreign banking organizations that are publicly traded, as that distinction would be eliminated under this proposal. Similarly, the Board is proposing to revise Items 5(d) and 5(e) to align the descriptions of the requirements with the asset size thresholds under this proposal. These Items would continue to assess compliance with the capital stress testing requirements in sections 252.146(b) and 252.158(b) of the Board's Regulation YY.

The proposal would amend the FR Y-7Q to align with revisions to Regulation YY. Currently, top-tier foreign banking organizations with \$50 billion or more in total consolidated assets must report Part 1B—Capital and Asset Information for Top-tier Foreign Banking Organizations with Consolidated Assets of \$50 billion or more. The proposal would now require top-tier foreign banking organizations that are subject to either sections 252.143 or 252.154 of the Board's Regulation YY to report Part 1B. Section 252.143 outlines risk-based and leverage capital requirements for foreign banking organizations with total consolidated assets of

¹¹⁶ See Board statement regarding the impact of the Economic Growth, Regulatory Relief, and Consumer Protection Act, July 6, 2018, available at <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180706b.htm>.

\$250 billion or more but combined U.S. assets of less than \$100 billion, while section 252.154 describes risk-based and leverage capital requirements for foreign banking organizations with \$100 billion or more in total consolidated assets and combined U.S. assets of \$100 billion or more.

The Board is proposing to amend the FR Y-9C to further clarify requirements for U.S. intermediate holding companies subject to Category III capital standards. In the domestic proposal, the Board proposed to amend the FR Y-9C to clarify that Category III Board-regulated institutions would not be included in the proposed definition of “advanced approaches banking organizations” but would be required to comply with the supplementary leverage ratio and countercyclical capital buffer requirements. Specifically, the domestic proposal would require line item 45 to be completed by “advanced approaches banking organizations and Category III Board-regulated institutions.” This proposal would make additional changes to line item 45 to further clarify that the supplementary leverage ratio and countercyclical capital buffer apply to Category III U.S. intermediate holding companies. Accordingly, line item 45 would be amended to apply to “advanced approaches holding companies, Category III bank holding companies, Category III savings and loan holding companies or Category III U.S. intermediate holding companies.” The instructions for the FR Y-9C also would be amended in this proposal to align with the proposed revisions to line item 45. Under the domestic proposal, the instructions for Schedule HC-R of the FR Y-9C would be clarified to indicate that Category III Board-regulated institutions are not subject to the advanced approaches rule but are subject to the supplementary leverage ratio and countercyclical capital buffer. This proposal would amend those instructions to further clarify that the supplementary leverage ratio and countercyclical capital buffer also

apply to Category III bank holding companies, Category III savings and loan holding companies, and Category III U.S. intermediate holding companies.

Consistent with EGRRCPA and the Board's July 2018 statement relating to EGRRCPA, the proposal would revise the FR Y-14A, Y-14M, and Y-14Q to revise the threshold for U.S. intermediate holding companies that would be required to submit these forms, by increasing it to U.S. intermediate holding companies with \$100 billion or more in total consolidated assets. U.S. intermediate holding companies below this size threshold would no longer be required to submit these forms. The proposal would also make technical changes to the definitions of "large and complex" and "large and noncomplex" bank holding company to align with proposed changes in section 225.8(d)(9).

The Board is proposing to modify the FR Y-15 report to require a foreign banking organization to report data for its combined U.S. operations that are related to the criteria for determining the applicability of enhanced prudential standards under this proposal. Currently, only U.S. intermediate holding companies are required to the FR Y-15. Extending FR Y-15 reporting requirements to the combined U.S. operations of a foreign banking organization would allow the Board to determine the applicable category of standards, as well as monitor the risk profile of those operations, consistent with the scope of application of this proposal. Specifically, foreign banking organizations would be required to report the information required under new schedules H through N of the FR Y-15, which would replicate schedules A through G of the current FR Y-15 for domestic holding companies (with the exception of cross-

jurisdictional activity, as discussed below).¹¹⁷ Schedules H through N would be structured to include three columns, in which a foreign banking organization would report the information request for each item for (i) its U.S. intermediate holding company, (ii) its U.S. branch and agency network, and (iii) its combined U.S. operations. In calculating an item for its U.S. branch and agency network, a foreign banking organization would not be required to reflect transactions between its individual branches and agencies; such transactions would be treated as if they were transactions between affiliates under generally accepted accounting principles, and thus eliminated in consolidation. Similarly, in calculating an item for its combined U.S. operations, a foreign banking organization would not be required to reflect transactions between entities that comprise the combined U.S. operations of the foreign banking organization. Consistent with the domestic proposal, the proposal would add two line items to Schedule H of the FR Y-15 to calculate total off-balance sheet exposure. New line item M4 (total consolidated assets) would report the total consolidated on-balance sheet assets for the respondent, as calculated under Schedule HC, item 12 (total consolidated assets) on the FR Y-9C. New line item M5 (total off-balance sheet exposures) would be total exposure, as currently defined on the FR Y-15, minus line item M4. For purposes of reporting cross-jurisdictional activity, the FR Y-15 would require foreign banking organizations to report assets and liabilities of the U.S. intermediate holding company and U.S. branch and agency network, excluding cross-jurisdictional liabilities to non-U.S. affiliates and cross-jurisdictional claims on non-U.S. affiliates to the extent that these claims are secured by eligible financial collateral. To effectuate this change, the proposal would add

¹¹⁷ U.S. intermediate holding companies would no longer be required to report on schedules A through G of the FR Y-15.

new line items to proposed Schedule L and amend the instructions accordingly. The proposal would clarify that Line Item 2(a) on Schedule L should be completed only with respect to the U.S. intermediate holding company's liabilities to its foreign subsidiaries, if any, and not liabilities to non-U.S. affiliates of the foreign banking organization not held by the U.S. intermediate holding company. Finally, the proposed changes to the FR Y-15 would make a number of additional edits to the form's instructions to clarify reporting requirements given the new scope of reporting for foreign banking organizations, and further align the form with the proposed categorization framework (e.g., amending references to "advanced approaches" institutions).

The Board is proposing to revise the FR 2052a report to modify the current reporting frequency as described previously in this Supplementary Information section. Consistent with EGRRCPA, the revisions would remove foreign banking organizations with less than \$100 billion in combined U.S. assets from the scope of FR 2052a reporting requirements. Additionally, the proposal would require foreign banking organizations with combined U.S. assets of \$100 billion or more to report the FR 2052a on a daily basis if they are: (i) subject to Category II standards, or (ii) have \$75 billion or more in weighted short-term wholesale funding. This would increase the frequency of reporting for foreign banking organizations subject to Category II standards with less than \$700 billion in combined U.S. assets and foreign banking organizations subject to Category III standards with \$75 billion or more in weighted short-term wholesale funding; these foreign banking organizations currently report the FR 2052a liquidity data on a monthly basis. Reporting daily liquidity data would facilitate enhanced supervisory monitoring based on these firms' liquidity risk profile, as indicated by their size, level of weighted short-term wholesale funding or cross-jurisdictional activity. The proposal to require

daily FR 2052a liquidity data based on whether a foreign banking organization is subject to Category II standards or has weighted short-term wholesale funding (among its combined U.S. operations) of \$75 billion or more would replace the existing criteria for determining whether a foreign banking organization is required to submit FR 2052a liquidity data on a daily basis, which is whether a foreign banking organizations is subject to supervision within the Board's Large Institution Supervision Coordinating Committee (LISCC) portfolio.¹¹⁸ All other foreign banking organizations with combined U.S. assets of \$100 billion or more would be subject to monthly filing requirements. The proposal also would clarify reporting transition periods if a change in category or level of short-term wholesale funding alters a firm's FR 2052a reporting frequency.

Question 42: What are the challenges, if any, of reporting the information required under the FR Y-15 for the combined U.S. operations of a foreign banking organization?

Question 43: What are the costs and benefits of the proposed changes to the FR 2052a, including the advantages and disadvantages of the proposed reporting frequency for firms subject to Category II and III standards?

Question 44: What changes should the Board consider to the proposed reporting requirements to alleviate burden? Commenters are encouraged to explain how any such changes would allow the Board to effectively monitor and supervise foreign banking organizations subject to the proposed reporting requirements, as appropriate to prevent or mitigate risks to U.S. financial stability.

¹¹⁸ See SR Letter 12-17, "Consolidated Supervision Framework for Large Financial Institutions" (December 17, 2012).

Question 45: What systems modifications would be required to report the information that would be required under the FR Y-15 in connection with this proposal? How much time would be required to implement any such modifications?

Question 46: As a part of this proposal, the Federal Reserve has released proposed Y-15 forms that would add Schedules H – N to be reported by foreign banking organizations. As an alternative, the Federal Reserve could add two new columns to Schedules A – G instead of creating new schedules for these firms. What are the advantages and disadvantages of these two approaches? What other approaches should the Board consider for collecting the Y-15 data from the U.S. branches and agencies, as well as the combined U.S. operations for foreign banking organizations?

IV. Impact assessment

In general, the Board expects the proposed adjustments to the capital and liquidity enhanced prudential standards would reduce aggregate compliance costs for foreign banking organizations with \$100 billion or more in combined U.S. assets, with minimal effects on the safety and soundness of these firms and U.S. financial stability.¹¹⁹ With respect to reporting burden, certain foreign banking organizations with weighted short-term wholesale funding of \$75 billion or more that previously filed the FR 2052a on a monthly basis may experience a

¹¹⁹ Foreign banking organizations with less than \$100 billion in combined U.S. assets (and U.S. intermediate holding companies with less than \$100 billion in total consolidated assets) would have significantly reduced compliance costs, as these firms would no longer be subject to subpart O of the enhanced prudential standards rule or the capital plan rule, and would no longer be required to file FR Y-14, FR Y-15, or FR 2052a reports. While these foreign banking organizations would no longer be subject to internal liquidity stress testing and buffer requirements with respect to their U.S. operations, these firms' U.S. operations currently hold HLA well in excess of their current liquidity buffer requirements.

minor increase in compliance costs due to the increase in reporting frequency of the FR 2052a to daily. For additional impact information, commenters should also review the interagency foreign banking organization capital and liquidity proposal.

A. Liquidity

The proposed changes to liquidity requirements are expected to reduce compliance costs for firms that would be subject to Category IV standards by reducing the required frequency of internal liquidity stress tests and tailoring the liquidity risk management requirements to the risk profiles of these firms. The Board does not expect these proposed changes to materially affect the liquidity buffer levels held by these firms or these firms' exposure to liquidity risk.

B. Capital planning and stress testing

First, while the Board expects the proposed changes to capital planning and stress testing requirements to have no material impact on the capital levels of U.S. intermediate holding companies with \$100 billion or more in total consolidated assets, the proposal would reduce compliance costs for U.S. intermediate holding companies subject to Category III or IV capital standards. These firms currently must conduct company-run stress tests on a semi-annual basis. For U.S. intermediate holding companies that would be subject to Category III standards, the proposal would reduce this frequency to every other year. For U.S. intermediate holding companies that would be subject to Category IV standards, the proposal would remove this requirement altogether.¹²⁰ In addition, under the proposal the Board would conduct supervisory

¹²⁰ Although the proposal would not modify the requirement for a U.S. intermediate holding company that would be subject to Category IV standards to conduct an internal capital stress test as part of its annual capital plan submission, the Board intends to propose changes in the future capital plan proposal to align with the proposed removal of company-run stress testing requirements for these firms. *See* section IV.D of this Supplementary Information section.

stress tests of U.S. intermediate holding companies subject to Category IV standards on a two-year, rather than annual, cycle. For U.S. intermediate holding companies subject to Category III or Category IV standards, the proposed changes would reduce the compliance costs associated with capital planning and stress testing.

C. Single-counterparty credit limits

The proposed changes to the single-counterparty credit limits framework are not expected to increase risks to U.S. financial stability. The proposal would remove U.S. intermediate holding companies of a foreign banking organization subject to Category IV standards (as measured based on the combined U.S. operations of the foreign banking organization) from the applicability of single-counterparty credit limits. While these U.S. intermediate holding companies would recognize reductions in compliance costs associated with these requirements, they typically do not present the risks that are intended to be addressed by the single-counterparty credit limits framework. In addition, the proposal would remove the single-counterparty credit limits applicable to major U.S. intermediate holding companies; however, there currently are no U.S. intermediate holding companies that meet or exceed the asset size threshold for these requirements.

The proposal would increase the costs of compliance for U.S. intermediate holding companies with less than \$250 billion in total consolidated assets and that are subject to Category II or Category III standards, as determined based on the combined U.S. operations of a foreign banking organization. The proposal would extend the applicability of certain provisions under the single-counterparty credit limits framework to these U.S. intermediate companies, which currently apply only to those with \$250 billion or more in total consolidated assets.

V. **Administrative law matters**

A. *Solicitation of comments and use of plain language*

Section 722 of the Gramm-Leach-Bliley Act (Pub. L. 106-102, 113 Stat. 1338, 1471, 12 U.S.C. 4809) requires the federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Board has sought to present the proposal in a simple and straightforward manner, and invites comment on the use of plain language. For example:

- Has the Board organized the material to suit your needs? If not, how could it present the proposal more clearly?
- Are the requirements in the proposal clearly stated? If not, how could the proposal be more clearly stated?
- Do the regulations contain technical language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand? If so, what changes would achieve that?
- Would more, but shorter, sections be better? If so, which sections should be changed?
- What other changes can the Board incorporate to make the regulation easier to understand?

B. *Paperwork Reduction Act analysis*

Certain provisions of the proposed rule contain “collections of information” within the meaning of the Paperwork Reduction Act of 1995 (PRA) (44 U.S.C. 3501-3521). The Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control

number. The Board reviewed the proposed rule under the authority delegated to the Board by OMB.

The proposed rule contains reporting requirements subject to the PRA. To implement these requirements, the Board proposes to revise the (1) Complex Institution Liquidity Monitoring Report (FR 2052a; OMB No. 7100–0361), (2) Annual Report of Foreign Banking Organizations (FR Y–7; OMB No. 7100–0297), (3) Capital and Asset Report for Foreign Banking Organizations (FR Y–7Q; OMB No. 7100–0125), (4) Consolidated Financial Statements for Holding Companies (FR Y–9C; OMB No. 7100–0128), (5) Capital Assessments and Stress Testing (FR Y–14A/Q/M; OMB No. 7100–0341), and (6) Banking Organization Systemic Risk Report (FR Y–15; OMB No. 7100–0352).

The proposed rule also contains reporting and recordkeeping requirements subject to the PRA. To implement these requirements, the Board proposes to revise reporting and recordkeeping requirements associated with Regulations Y, LL and YY: (7) Reporting and Recordkeeping Requirements Associated with Regulation Y (Capital Plans) (FR Y-13; OMB No. 7100-0342), (8) Reporting Requirements Associated with Regulation LL (FR LL; OMB No. 7100-NEW), and (9) Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation YY (FR YY; OMB No. 7100-0350). This notice contains Paperwork Reduction Act burden estimates for the proposed changes to Regulations Y, LL and YY for this proposed rule, as well as the burden estimates for the proposed reporting and recordkeeping requirements in Regulations Y, LL and YY in the proposal issued by the Board for domestic banking organizations on October 31, 2018 (83 FR 61408). Foreign banking organizations do not currently report all of the data for the measure of cross-jurisdictional activity and, accordingly, the burden estimates rely on firm categorizations using best available data.

Comments are invited on:

- (a) Whether the proposed collections of information are necessary for the proper performance of the Board's functions, including whether the information has practical utility;
- (b) The accuracy of the estimates of the burden of the proposed information collections, including the validity of the methodology and assumptions used;
- (c) Ways to enhance the quality, utility, and clarity of the information to be collected;
- (d) Ways to minimize the burden of the information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and
- (e) Estimates of capital or startup costs and costs of operation, maintenance, and purchase of services to provide information.

All comments will become a matter of public record. Comments on aspects of this proposed rule that may affect reporting, recordkeeping, or disclosure requirements and burden estimates should be sent to Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551. A copy of the comments may also be submitted to the OMB desk officer to the Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street NW, Washington, DC 20503 or by fax to 202-395-6974.

Proposed Revision, With Extension, of the Following Information Collections

(1) *Report title:* Complex Institution Liquidity Monitoring Report.

Agency form number: FR 2052a.

OMB control number: 7100-0361.

Frequency: Monthly, each business day (daily).

Affected Public: Businesses or other for-profit.

Respondents: U.S. bank holding companies, U.S. savings and loan holding companies, and foreign banking organizations with U.S. assets.

Estimated number of respondents: Monthly: 25; Daily: 17.

Estimated average hours per response: Monthly: 120; Daily: 220.

Estimated annual burden hours: 971,000.

General description of report: The FR 2052a is used to monitor the overall liquidity profile of institutions supervised by the Board. These data provide detailed information on the liquidity risks within different business lines (*e.g.*, financing of securities positions, prime brokerage activities). In particular, these data serve as part of the Board's supervisory surveillance program in its liquidity risk management area and provide timely information on firm-specific liquidity risks during periods of stress. Analyses of systemic and idiosyncratic liquidity risk issues are then used to inform the Board's supervisory processes, including the preparation of analytical reports that detail funding vulnerabilities.

Legal authorization and confidentiality: The FR 2052a is authorized pursuant to section 5 of the Bank Holding Company Act (12 U.S.C. 1844), section 8 of the International Banking Act (12 U.S.C. 3106), section 10 of HOLA (12 U.S.C. 1467a), and section 165 of the Dodd-Frank Act (12 U.S.C. 5365) and is mandatory. Section 5(c) of the Bank Holding Company Act authorizes the Board to require bank holding companies (BHCs) to submit reports to the Board regarding their financial condition. Section 8(a) of the International Banking Act subjects foreign banking organizations to the provisions of the Bank Holding Company Act. Section 10(b)(2) of HOLA authorizes the Board to require savings and loan holding companies (SLHCs) to file reports with the Board concerning their operations. Section 165 of the Dodd-Frank Act

requires the Board to establish prudential standards, including liquidity requirements, for certain BHCs and foreign banking organizations.

Financial institution information required by the FR 2052a is collected as part of the Board's supervisory process. Therefore, such information is entitled to confidential treatment under exemption 8 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(8)). In addition, the institution information provided by each respondent would not be otherwise available to the public and its disclosure could cause substantial competitive harm. Accordingly, it is entitled to confidential treatment under the authority of exemption 4 of the FOIA (5 U.S.C. 552(b)(4), which protects from disclosure trade secrets and commercial or financial information.

Current Actions: To implement the reporting requirements of the proposed rule, the Board is proposing to modify the current FR 2052a reporting frequency. Consistent with EGRRCPA's changes, the revisions would remove foreign banking organizations with less than \$100 billion in combined U.S. assets from the scope of FR 2052a reporting requirements. Additionally, the proposal would require foreign banking organizations with combined U.S. assets of \$100 billion or more to report the FR 2052a on a daily basis if they are (1) subject to Category II standards or (2) have \$75 billion or more in weighted short-term wholesale funding. All other foreign banking organizations with combined U.S. assets of \$100 billion or more would be subject to monthly filing requirements. The Board estimates that proposed revisions to the FR 2052a would decrease the respondent count by 6. Specifically, the Board estimates that the number of monthly filers would decrease from 36 to 25, but the number of daily filers would increase from 12 to 17. The Board estimates that proposed revisions to the FR 2052a would increase the estimated annual burden by 259,160 hours. The draft reporting forms and

instructions are available on the Board's public website at

<https://www.federalreserve.gov/apps/reportforms/review.aspx>.

(2) *Report title:* Annual Report of Holding Companies; Annual Report of Foreign Banking Organizations; Report of Changes in Organizational Structure; Supplement to the Report of Changes in Organizational Structure.

Agency form number: FR Y-6; FR Y-7; FR Y-10; FR Y-10E.

OMB control number: 7100-0297.

Frequency: Annual and event-generated.

Affected Public: Businesses or other for-profit.

Respondents: Bank holding companies (BHCs), savings and loan holding companies (SLHCs), securities holding companies (SHCs), and intermediate holding companies (IHCs) (collectively, holding companies (HCs)), foreign banking organizations (FBOs), state member banks (SMBs) unaffiliated with a BHC, Edge Act and agreement corporations, and nationally chartered banks that are not controlled by a BHC (with regard to their foreign investments only).

Estimated number of respondents: FR Y-6: 4,079; FR Y-7: 257; FR Y-10: 4,269; FR Y-10E: 4,269.

Estimated average hours per response: FR Y-6: 5.5; FR Y-7: 4.5; FR Y-10: 2.5; FR Y-10E: 0.5.

Estimated annual burden hours: FR Y-6: 22,435; FR Y-7: 1,157; FR Y-10: 32,018; FR Y-10E: 2,135.

General description of report: The FR Y-6 is an annual information collection submitted by top-tier domestic HCs and FBOs that are non-qualifying. It collects financial data, an organization chart, verification of domestic branch data, and information about shareholders.

The Federal Reserve uses the data to monitor HC operations and determine HC compliance with the provisions of the BHC Act, Regulation Y (12 CFR 225), the Home Owners' Loan Act (HOLA), Regulation LL (12 CFR 238), and Regulation YY (12 CFR 252).

The FR Y-7 is an annual information collection submitted by FBOs that are qualifying to update their financial and organizational information with the Federal Reserve. The FR Y-7 collects financial, organizational, shareholder, and managerial information. The Federal Reserve uses the information to assess an FBO's ability to be a continuing source of strength to its U.S. operations and to determine compliance with U.S. laws and regulations.

The FR Y-10 is an event-generated information collection submitted by FBOs; top-tier HCs; securities holding companies as authorized under Section 618 of the Dodd-Frank Act (12 U.S.C. 1850a(c)(1)); state member banks unaffiliated with a BHC; Edge and agreement corporations that are not controlled by a member bank, a domestic BHC, or an FBO; and nationally chartered banks that are not controlled by a BHC (with regard to their foreign investments only) to capture changes in their regulated investments and activities. The Federal Reserve uses the data to monitor structure information on subsidiaries and regulated investments of these entities engaged in banking and nonbanking activities.

The FR Y-10E is an event-driven supplement that may be used to collect additional structural information deemed to be critical and needed in an expedited manner.

Legal authorization and confidentiality: These information collections are mandatory as follows:

FR Y-6: Section 5(c)(1)(A) of the Bank Holding Company Act (BHC Act) (12 U.S.C. 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (IBA) (12 U.S.C. 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (FRA) (12

U.S.C. 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) (12 U.S.C. 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)).

FR Y-7: Sections 8(a) and 13(a) of the IBA (12 U.S.C. 3106(a) and 3108(a)); sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)).

FR Y-10 and FR Y-10E: Sections 4(k) and 5(c)(1)(A) of the BHC Act (12 U.S.C. 1843(k), and 1844(c)(1)(A)); section 8(a) of the IBA (12 U.S.C. 3106(a)); sections 11(a)(1), 25(7), and 25A of the FRA (12 U.S.C. 248(a)(1), 321, 601, 602, 611a, 615, and 625); sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)); and section 10(c)(2)(H) of the Home Owners' Loan Act (HOLA) (12 U.S.C. 1467a(c)(2)(H)).

Except as discussed below, the data collected in the FR Y-6, FR Y-7, FR Y-10, and FR Y-10E are generally not considered confidential. With regard to information that a banking organization may deem confidential, the institution may request confidential treatment of such information under one or more of the exemptions in the Freedom of Information Act (FOIA) (5 U.S.C. 552). The most likely case for confidential treatment will be based on FOIA exemption 4, which permits an agency to exempt from disclosure “trade secrets and commercial or financial information obtained from a person and privileged and confidential” (5 U.S.C. 552(b)(4)). To the extent an institution can establish the potential for substantial competitive harm, such information would be protected from disclosure under the standards set forth in *National Parks & Conservation Association v. Morton*, 498 F.2d 765 (D.C. Cir. 1974). In particular, the disclosure of the responses to the certification questions on the FR Y-7 may interfere with home country

regulators' administration, execution, and disclosure of their stress test regime and its results, and may cause substantial competitive harm to the FBO providing the information, and thus this information may be protected from disclosure under FOIA exemption 4. Exemption 6 of FOIA might also apply with regard to the respondents' submission of non-public personal information of owners, shareholders, directors, officers and employees of respondents. Exemption 6 covers "personnel and medical files and similar files the disclosure of which would constitute a clearly unwarranted invasion of personal privacy" (5 U.S.C. 552(b)(6)). All requests for confidential treatment would need to be reviewed on a case-by-case basis and in response to a specific request for disclosure.

Current Actions: The Board is proposing to revise item 5 on the FR Y-7, Regulation YY Compliance for the Foreign Banking Organization (FBO), to align the reporting form with the applicability thresholds set forth in this proposal and other regulatory changes that are consistent with the Board's July 2018 statement concerning EGRRCPA. The Board estimates that proposed revisions to the FR Y-7 would not impact the respondent count, but the estimated average hours per response would decrease from 6 hours to 4.5 hours. The Board estimates that proposed revisions to the FR Y-7 would decrease the estimated annual burden by 385 hours. The draft reporting forms and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/reportforms/review.aspx>.

(3) *Report title:* Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations, Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations, and Capital and Asset Report for Foreign Banking Organizations.

Agency form number: FR Y-7N, FR Y-7NS, and FR Y-7Q.

OMB control number: 7100-0125.

Frequency: Quarterly and annually.

Affected Public: Businesses or other for-profit.

Respondents: Foreign banking organizations (FBOs).

Estimated number of respondents: FR Y-7N (quarterly): 35; FR Y-7N (annual): 19; FR Y-7NS: 22; FR Y-7Q (quarterly): 130; FR Y-7Q (annual): 29.

Estimated average hours per response: FR Y-7N (quarterly): 7.6; FR Y-7N (annual): 7.6; FR Y-7NS: 1; FR Y-7Q (quarterly): 2.25; FR Y-7Q (annual): 1.5.

Estimated annual burden hours: FR Y-7N (quarterly): 1,064; FR Y-7N (annual): 144; FR Y-7NS: 22; FR Y-7Q (quarterly): 1,170; FR Y-7Q (annual): 44.

General description of report: The FR Y-7N and the FR Y-7NS are used to assess an FBO's ability to be a continuing source of strength to its U.S. operations and to determine compliance with U.S. laws and regulations. FBOs file the FR Y-7N quarterly or annually or the FR Y-7NS annually predominantly based on asset size thresholds. The FR Y-7Q is used to assess consolidated regulatory capital and asset information from all FBOs. The FR Y-7Q is filed quarterly by FBOs that have effectively elected to become or be treated as a U.S. financial holding company (FHC) and by FBOs that have total consolidated assets of \$50 billion or more, regardless of FHC status. All other FBOs file the FR Y-7Q annually.

Legal authorization and confidentiality: With respect to FBOs and their subsidiary IHCs, section 5(c) of the BHC Act, in conjunction with section 8 of the International Banking Act (12 U.S.C. 3106), authorizes the board to require FBOs and any subsidiary thereof to file the FR Y-7N reports, and the FR Y-7Q.

Information collected in these reports generally is not considered confidential. However, because the information is collected as part of the Board's supervisory process, certain information may be afforded confidential treatment pursuant to exemption 8 of FOIA (5 U.S.C. 552(b)(8)). Individual respondents may request that certain data be afforded confidential treatment pursuant to exemption 4 of the FOIA if the data has not previously been publically disclosed and the release of the data would likely cause substantial harm to the competitive position of the respondent (5 U.S.C. 552(b)(4)). Additionally, individual respondents may request that personally identifiable information be afforded confidential treatment pursuant to exemption 6 of the FOIA if the release of the information would constitute a clearly unwarranted invasion of personal privacy (5 U.S.C. 552(b)(6)). The applicability of FOIA exemptions 4 and 6 would be determined on a case-by-case basis.

Current Actions: The proposal would amend the FR Y-7Q to align with revisions to the enhanced prudential standards rule. Currently, top-tier foreign banking organizations with \$50 billion or more in total consolidated assets must report Part 1B—Capital and Asset Information for Top-tier Foreign Banking Organizations with Consolidated Assets of \$50 billion or more. The proposal would now require top-tier foreign banking organizations that are subject to either sections 252.143 or 252.154 of the enhanced prudential standards rule to report Part 1B. The Board estimates that proposed revisions to the FR Y-7Q would not impact the respondent count, but the estimated average hours per response would decrease from 3 hours to 2.25 hours. The Board estimates that proposed revisions to the FR Y-7Q would decrease the estimated annual burden by 390 hours. The draft reporting forms and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/reportforms/review.aspx>.

(4) *Report title:* Consolidated Financial Statements for Holding Companies.

Agency form number: FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9ES, and FR Y-9CS.

OMB control number: 7100-0128.

Frequency: Quarterly, semiannually, and annually.

Affected Public: Businesses or other for-profit.

Respondents: Bank holding companies (BHCs), savings and loan holding companies (SLHCs), securities holding companies (SHCs), and U.S. Intermediate Holding Companies (IHCs) (collectively, holding companies (HCs)).

Estimated number of respondents: FR Y-9C (non-advanced approaches holding companies): 292; FR Y-9C (advanced approached holding companies): 19; FR Y-9LP: 338; FR Y-9SP: 4,238; FR Y-9ES: 82; FR Y-9CS: 236.

Estimated average hours per response: FR Y-9C (non-advanced approaches holding companies): 46.34; FR Y-9C (advanced approached holding companies): 47.59; FR Y-9LP: 5.27; FR Y-9SP: 5.40; FR Y-9ES: 0.50; FR Y-9CS: 0.50.

Estimated annual burden hours: FR Y-9C (non advanced approaches holding companies): 54,125; FR Y-9C (advanced approached holding companies): 3,617; FR Y-9LP: 7,125; FR Y-9SP: 45,770; FR Y-9ES: 41; FR Y-9CS: 472.

General description of report: The FR Y-9 family of reporting forms continues to be the primary source of financial data on HCs on which examiners rely between on-site inspections. Financial data from these reporting forms is used to detect emerging financial problems, review performance, conduct preinspection analysis, monitor and evaluate capital adequacy, evaluate HC mergers and acquisitions, and analyze an HC's overall financial condition to ensure the safety and soundness of its operations. The FR Y-9C, FR Y-9LP, and FR Y-9SP serve as standardized financial statements for the consolidated holding company. The Board requires

HCs to provide standardized financial statements to fulfill the Board’s statutory obligation to supervise these organizations. The FR Y–9ES is a financial statement for HCs that are Employee Stock Ownership Plans. The Board uses the FR Y–9CS (a free-form supplement) to collect additional information deemed to be critical and needed in an expedited manner. HCs file the FR Y–9C on a quarterly basis, the FR Y–9LP quarterly, the FR Y–9SP semiannually, the FR Y–9ES annually, and the FR Y–9CS on a schedule that is determined when this supplement is used.

Legal authorization and confidentiality: The FR Y–9 family of reports is authorized by section 5(c) of the Bank Holding Company Act (12 U.S.C. 1844(c)), section 10(b) of the Home Owners’ Loan Act (12 U.S.C. 1467a(b)), section 618 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) (12 U.S.C. 1850a(c)(1)), and section 165 of the Dodd-Frank Act (12 U.S.C. 5365). The obligation of covered institutions to report this information is mandatory.

With respect to FR Y–9LP, FR Y–9SP, FR Y–ES, and FR Y–9CS, the information collected would generally not be accorded confidential treatment. If confidential treatment is requested by a respondent, the Board will review the request to determine if confidential treatment is appropriate.

With respect to FR Y–9C, Schedule HI’s item 7(g) “FDIC deposit insurance assessments,” Schedule HC–P’s item 7(a) “Representation and warranty reserves for 1–4 family residential mortgage loans sold to U.S. government agencies and government sponsored agencies,” and Schedule HC–P’s item 7(b) “Representation and warranty reserves for 1–4 family residential mortgage loans sold to other parties” are considered confidential. Such treatment is appropriate because the data is not publicly available and the public release of this data is likely

to impair the Board’s ability to collect necessary information in the future and could cause substantial harm to the competitive position of the respondent. Thus, this information may be kept confidential under exemptions (b)(4) of the Freedom of Information Act, which exempts from disclosure “trade secrets and commercial or financial information obtained from a person and privileged or confidential” (5 U.S.C. 552(b)(4)), and (b)(8) of the Freedom of Information Act, which exempts from disclosure information related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions (5 U.S.C. 552(b)(8)).

Current Actions: To implement the reporting requirements of the proposed rule, the Board is proposing to amend the FR Y-9C to further clarify requirements for U.S. intermediate holding companies subject to Category III capital standards. This proposal would amend those instructions to further clarify that the supplementary leverage ratio and countercyclical buffer also apply to Category III bank holding companies, Category III savings and loan holding companies, and Category III U.S. intermediate holding companies. The Board estimates that proposed revisions to the FR Y-9C would increase the respondent count by 1. The draft reporting forms and instructions are available on the Board’s public website at <https://www.federalreserve.gov/apps/reportforms/review.aspx>.

(5) Report title: Capital Assessments and Stress Testing.

Agency form number: FR Y-14A/Q/M.

OMB control number: 7100-0341.

Frequency: Annually, semiannually, quarterly, and monthly.

Affected Public: Businesses or other for-profit.

Respondents: The respondent panel consists of any top-tier bank holding company (BHC) that has \$100 billion or more in total consolidated assets, as determined based on (1) the average of the firm's total consolidated assets in the four most recent quarters as reported quarterly on the firm's FR Y-9C or (2) the average of the firm's total consolidated assets in the most recent consecutive quarters as reported quarterly on the firm's FR Y-9Cs, if the firm has not filed an FR Y-9C for each of the most recent four quarters. The respondent panel also consists of any U.S. intermediate holding company (IHC). Reporting is required as of the first day of the quarter immediately following the quarter in which the respondent meets this asset threshold, unless otherwise directed by the Board.

Estimated number of respondents: 35.

Estimated average hours per response: FR Y-14A: Summary, 887; Macro Scenario, 31; Operational Risk, 18; Regulatory Capital Instruments, 21; Business Plan Changes, 16; and Adjusted Capital Plan Submission, 100. FR Y-14Q: Retail, 15; Securities, 13; PPNR, 711; Wholesale, 151; Trading, 1,926; Regulatory Capital Transitions, 23; Regulatory Capital Instruments, 54; Operational Risk, 50; MSR Valuation, 23; Supplemental, 4; Retail FVO/HFS, 15; Counterparty, 514; and Balances, 16. FR Y-14M: 1st Lien Mortgage, 516; Home Equity, 516; and Credit Card, 512. FR Y-14: Implementation, 7,200; Ongoing Automation Revisions, 480. FR Y-14 Attestation – Implementation, 4,800; Attestation On-going Audit and Review, 2,560.

Estimated annual burden hours: FR Y-14A: Summary, 62,090; Macro Scenario, 2,170; Operational Risk, 630; Regulatory Capital Instruments, 735; Business Plan Changes, 560; and Adjusted Capital Plan Submission, 500. FR Y-14Q: Retail, 2,100; Securities, 1,820; Pre-Provision Net Revenue (PPNR), 99,540; Wholesale, 21,140; Trading, 92,448; Regulatory Capital

Transitions, 3,220; Regulatory Capital Instruments, 7,560; Operational risk, 7,000; Mortgage Servicing Rights (MSR) Valuation, 1,380; Supplemental, 560; Retail Fair Value Option/Held for Sale (Retail FVO/HFS), 1,500; Counterparty, 24,672; and Balances, 2,240. FR Y–14M: 1st Lien Mortgage, 204,336; Home Equity, 167,184; and Credit Card, 79,872. FR Y–14: Implementation, and On-going Automation Revisions, 16,800. FR Y–14 Attestation On-going Audit and Review, 33,280.

General description of report: These collections of information are applicable to top-tier BHCs with total consolidated assets of \$100 billion or more and U.S. IHCs. This family of information collections is composed of the following three reports:

1. The FR Y–14A collects quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios either annually or semi-annually.
2. The quarterly FR Y–14Q collects granular data on various asset classes, including loans, securities, and trading assets, and PPNR for the reporting period.
3. The monthly FR Y–14M is comprised of three retail portfolio- and loan-level schedules, and one detailed address-matching schedule to supplement two of the portfolio and loan-level schedules.

The data collected through the FR Y–14A/Q/M reports provide the Board with the information and perspective needed to help ensure that large firms have strong, firm-wide risk measurement and management processes supporting their internal assessments of capital adequacy and that their capital resources are sufficient given their business focus, activities, and resulting risk exposures. The annual CCAR exercise complements other Board supervisory efforts aimed at enhancing the continued viability of large firms, including continuous

monitoring of firms' planning and management of liquidity and funding resources, as well as regular assessments of credit, market and operational risks, and associated risk management practices. Information gathered in this data collection is also used in the supervision and regulation of these financial institutions. To fully evaluate the data submissions, the Board may conduct follow-up discussions with, or request responses to follow up questions from, respondents. Respondent firms are currently required to complete and submit up to 18 filings each year: Two semi-annual FR Y-14A filings, four quarterly FR Y-14Q filings, and 12 monthly FR Y-14M filings. Compliance with the information collection is mandatory.

Legal authorization and confidentiality: The Board has the authority to require BHCs to file the FR Y-14A/Q/M reports pursuant to section 5 of the Bank Holding Company Act (BHC Act) (12 U.S.C. 1844), and to require the U.S. IHCs of FBOs to file the FR Y-14 A/Q/M reports pursuant to section 5 of the BHC Act, in conjunction with section 8 of the International Banking Act (12 U.S.C. 3106). The Board has authority to require SLHCs to file the FR Y-14A/Q/M reports pursuant to section 10 of HOLA (12 U.S.C. 1467a).

The information collected in these reports is collected as part of the Board's supervisory process, and therefore is afforded confidential treatment pursuant to exemption 8 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(8)). In addition, individual respondents may request that certain data be afforded confidential treatment pursuant to exemption 4 of FOIA if the data has not previously been publicly disclosed and the release of the data would likely cause substantial harm to the competitive position of the respondent (5 U.S.C. 552(b)(4)).

Determinations of confidentiality based on exemption 4 of FOIA would be made on a case-by-case basis.

Current Actions: To implement the reporting requirements of the proposed rule, the Board proposes to revise the FR Y-14 threshold for U.S. intermediate holding companies that would be required to submit these forms, by increasing it to apply only U.S. intermediate holding companies with \$100 billion or more in total consolidated assets. U.S. intermediate holding companies below this size threshold would no longer be required to submit these forms. The Board estimates that proposed revisions to the FR Y-14 would decrease the reporting panel by 1 respondent. The draft reporting forms and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/reportforms/review.aspx>.

(6) Report title: Banking Organization Systemic Risk Report.

Agency form number: FR Y-15.

OMB control number: 7100-0352.

Frequency: Quarterly.

Affected Public: Businesses or other for-profit.

Respondents: U.S. bank holding companies (BHCs), covered savings and loan holding companies (SLHCs), and U.S. intermediate holding companies (IHCs) of foreign banking organizations with \$100 billion or more in total consolidated assets, and any BHC designated as a global systemically important bank holding company (GSIB) that does not otherwise meet the consolidated assets threshold for BHCs.

Estimated number of respondents: 42.

Estimated average hours per response: 408.01.

Estimated annual burden hours: 68,546.

General description of report: The FR Y-15 quarterly report collects systemic risk data from U.S. bank holding companies (BHCs), covered savings and loan holding companies

(SLHCs), and U.S. intermediate holding companies (IHCs) with total consolidated assets of \$50 billion or more, and any BHC identified as a global systemically important banking organization (GSIB) based on its method 1 score calculated as of December 31 of the previous calendar year. The Board uses the FR Y-15 data to monitor, on an ongoing basis, the systemic risk profile of institutions that are subject to enhanced prudential standards under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). In addition, the FR Y-15 is used to (1) facilitate the implementation of the GSIB surcharge rule, (2) identify other institutions that may present significant systemic risk, and (3) analyze the systemic risk implications of proposed mergers and acquisitions.

Legal authorization and confidentiality: The mandatory FR Y-15 is authorized by sections 163 and 165 of the Dodd-Frank Act (12 U.S.C. 5463 and 5365), the International Banking Act (12 U.S.C. 3106 and 3108), the Bank Holding Company Act (12 U.S.C. 1844), and HOLA (12 U.S.C. 1467a).

Most of the data collected on the FR Y-15 is made public unless a specific request for confidentiality is submitted by the reporting entity, either on the FR Y-15 or on the form from which the data item is obtained. Such information will be accorded confidential treatment under exemption 4 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(4)) if the submitter substantiates its assertion that disclosure would likely cause substantial competitive harm. In addition, items 1 through 4 of Schedule G of the FR Y-15, which contain granular information regarding the reporting entity's short-term funding, will be accorded confidential treatment under exemption 4 for observation dates that occur prior to the liquidity coverage ratio disclosure standard being implemented. To the extent confidential data collected under the FR Y-15 will

be used for supervisory purposes, it may be exempt from disclosure under Exemption 8 of FOIA (5 U.S.C. 552(b)(8)).

Current Actions: To implement the reporting requirements of the proposed rule, the Board is proposing to modify the FR Y-15 report to require a foreign banking organization to report data for its combined U.S. operations that are related to the criteria for determining the applicability of enhanced prudential standards under this proposal. Foreign banking organizations would be required to report the information required under new schedules H through N of the FR Y-15, which would replicate schedules A through F of the current FR Y-15 for domestic holding companies (with the exception of cross-jurisdictional activity, as discussed below).¹²¹ Schedules H through N would be structured to include three columns, in which a foreign banking organization would report the information request for each item for (i) its U.S. intermediate holding company, (ii) its U.S. branch and agency network, and (iii) its combined U.S. operations. Consistent with the domestic proposal, the proposal would add two line items to Schedule H of the FR Y-15 to calculate total off-balance sheet exposure. New line item M4 (total consolidated assets) would report the total consolidated on-balance sheet assets for the respondent, as calculated under Schedule HC, item 12 (total consolidated assets) on the FR Y-9C. New line item M5 (total off-balance sheet exposures) would be total exposure, as currently defined on the FR Y-15, minus line item M4. For purposes of reporting cross-jurisdictional activity, the FR Y-15 would require foreign banking organizations to report assets and liabilities of the U.S. intermediate holding company and U.S. branch and agency network, excluding cross-

¹²¹ U.S. intermediate holding companies would no longer be required to report on schedules A through G of the FR Y-15.

jurisdictional liabilities to non-U.S. affiliates and cross-jurisdictional claims on non-U.S. affiliates to the extent that these claims are secured by eligible financial collateral. To effectuate this change, the proposal would add new line items to proposed Schedule L and amend the instructions accordingly. The proposal would clarify that Line Item 2(a) should be completed only with respect to the U.S. intermediate holding company's liabilities to its foreign subsidiaries, if any, and not liabilities to non-U.S. affiliates of the foreign banking organization not held by the U.S. intermediate holding company. Line Item 2(a) would be left blank for the U.S. branch or agency. The Board estimates that the proposed changes to the FR Y-15 would increase the respondent count by 5 respondents. The Board also estimates that proposed revisions to the FR Y-15 would increase the estimated average hours per response by 7.01 hours and would increase the estimated annual burden by 9,198 hours. The draft reporting forms and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/reportforms/review.aspx>.

(7) *Report title:* Reporting and Recordkeeping Requirements Associated with Regulation Y (Capital Plans).

Agency form number: FR Y-13.

OMB control number: 7100-0342.

Frequency: Annually.

Affected Public: Businesses or other for-profit.

Respondents: BHCs and IHCs.

Estimated number of respondents: 36.

Estimated average hours per response: Annual capital planning reporting (225.8(e)(1)(ii)), 80 hours; data collections reporting (225.8(e)(3)), 1,005 hours; data collections

reporting (225.8(e)(4)), 100 hours; review of capital plans by the Federal Reserve reporting (225.8(f)(3)(i)), 16 hours; prior approval request requirements reporting (225.8(g)(1), (3), & (4)), 100 hours; prior approval request requirements exceptions (225.8(g)(3)(iii)(A)), 16 hours; prior approval request requirements reports (225.8(g)(6)), 16 hours; annual capital planning recordkeeping (225.8(e)(1)(i)) (LISCC and large and complex firms), 11,920 hours; annual capital planning recordkeeping (225.8(c)(1)(i)) (large and noncomplex firms), 8,920 hours; annual capital planning recordkeeping (225.8(e)(1)(iii)), 100 hours.

Estimated annual burden hours: Annual capital planning reporting (225.8(e)(1)(ii)), 2,720 hours; data collections reporting (225.8(e)(3)), 25,125 hours; data collections reporting (225.8(e)(4)), 1,000 hours; review of capital plans by the Federal Reserve reporting (225.8(f)(3)(i)), 32 hours; prior approval request requirements reporting (225.8(g)(1), (3), & (4)), 2,300 hours; prior approval request requirements exceptions (225.8(g)(3)(iii)(A)), 32 hours; prior approval request requirements reports (225.8(g)(6)), 32 hours; annual capital planning recordkeeping (225.8(e)(1)(i)) (LISCC and large and complex firms), 214,560 hours; annual capital planning recordkeeping (225.8(c)(1)(i)) (large and noncomplex firms), 142,720 hours; annual capital planning recordkeeping (225.8(e)(1)(iii)), 3,400 hours.

General description of report: Regulation Y (12 CFR part 225) requires large bank holding companies (BHCs) to submit capital plans to the Federal Reserve on an annual basis and to require such BHCs to request prior approval from the Federal Reserve under certain circumstances before making a capital distribution.

Current Actions: This proposal and the Board's proposal on prudential standards for domestic banking organizations (83 FR 61408) would make various changes to the Board's capital plan rule. First, the threshold for application of section 225.8 would be raised from bank

holding companies with \$50 billion or more in total consolidated assets to bank holding companies with \$100 billion or more in total consolidated assets. Second, the proposals would amend the definition of “large and noncomplex bank holding company” to be Category IV banking organizations, pursuant to 12 CFR 252.5. The proposed changes would reduce the panels for various provisions in section 225.8.

(8) *Title of Information Collection: Reporting Requirements Associated with Regulation LL.*

Agency Form Number: FR LL.

OMB control number: 7100-NEW.

Frequency: Biennial.

Affected Public: Businesses or other for-profit.

Respondents: Savings and loan holding companies.

Description of the Information Collection: Section 252.122(b)(1)(iii) of the Board’s Regulation YY currently requires, unless the Board otherwise determines in writing, a foreign savings and loan holding company with more than \$10 billion in total consolidated assets that does not meet applicable home-country stress testing standards to report on an annual basis a summary of the results of the stress test to the Board.

Current Actions: The Board proposes to move the requirement for foreign savings and loan holding companies currently in section 252.122(b)(1)(iii) of Regulation YY into the proposed section 238.162(b)(1)(ii) of Regulation LL. In doing so, the Board proposes to amend the frequency of the reporting requirement in proposed section 238.162(b)(1)(ii) from annual to at least biennial. The Board also proposes to raise the threshold for applicability of section

238.162 from more than \$10 billion in total consolidated assets to more than \$250 billion in total consolidated assets.

Legal authorization and confidentiality: This information collection is authorized by section 10 of the Home Owners' Loan Act (HOLA) and section 165(i)(2) of the Dodd-Frank Act. The obligation of covered institutions to report this information is mandatory. This information would be disclosed publicly and, as a result, no issue of confidentiality is raised.

Estimated number of respondents: 1.¹²²

Estimated average hours per response: 80.

Estimated annual burden hours: 40.

(8) *Title of Information Collection:* Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation YY (Enhanced Prudential Standards).

Agency Form Number: FR YY.

OMB Control Number: 7100-0350.

Frequency of Response: Annual, semiannual, quarterly.

Affected Public: Businesses or other for-profit.

Respondents: State member banks, U.S. bank holding companies, savings and loan holding companies, nonbank financial companies, foreign banking organizations, U.S. intermediate holding companies, foreign saving and loan holding companies, and foreign nonbank financial companies supervised by the Board.

¹²² Currently, there are no foreign savings and loan holding companies in existence. For PRA purposes, “1” is used as a placeholder.

Number of respondents: 24 U.S. bank holding companies with total consolidated assets of \$50 billion or more, 46 U.S. bank holding companies with total consolidated assets over \$10 billion and less than \$50 billion, 21 state member banks with total consolidated assets over \$10 billion, 39 savings and loan holding companies with total consolidated assets over \$10 billion, 24 foreign banking organizations with total consolidated assets of \$50 billion or more and combined U.S. assets of \$50 billion or more, 17 U.S. intermediate holding companies, and 102 foreign banking organizations with total consolidated assets of more than \$10 billion and combined U.S. assets of less than \$50 billion.

Description of the Information Collection: Section 165 of the Dodd-Frank Act, as amended by EGRRCPA, requires the Board to implement enhanced prudential standards for bank holding companies and foreign banking organizations with total consolidated assets of \$250 billion or more, and provides the Board with discretion to apply enhanced prudential standards to certain bank holding companies and foreign banking organizations with \$100 billion or more, but less than \$250 billion, in total consolidated assets. The enhanced prudential standards include risk-based and leverage capital requirements, liquidity standards, requirements for overall risk management (including establishing a risk committee), stress test requirements, and debt-to-equity limits for companies that the Financial Stability Oversight Council has determined pose a grave threat to financial stability.

Current Actions: As described below, the Board is amending reporting, recordkeeping and disclosure requirements in Regulation YY to be consistent with EGRRCPA's changes to section 165 of the Dodd-Frank; the Board's proposal to amend prudential standards for domestic banking organizations (83 FR 61408); and the proposal described in this Federal Register notice,

which amends prudential standards for foreign banking organizations and foreign savings and loan holding companies.

Subpart D – The domestic proposal proposed to change applicability thresholds for application of subpart D from bank holding companies with \$50 billion or more in total consolidated assets to bank holding companies with \$100 billion or more in total consolidated. In doing so, the number of respondents for collections of information in sections 252.34 and .35 would decrease. Additionally, the burden hours for compliance with sections 252.34(h)(1) and (h)(3) would be reduced. Section 252.34(h)(1) would require a bank holding company with total consolidated assets of \$100 billion or more to establish and maintain policies and procedures to monitor assets that have been, or are available to be, pledged as collateral in connection with transactions to which it or its affiliates are counterparties and sets forth minimum standards for those procedures. Category IV bank holding companies would be required to calculate their collateral positions on a monthly basis; all other bank holding companies subject to the section would be required to calculate their collateral positions on a weekly basis. Currently, all bank holding companies subject to this provision must calculate collateral positions weekly (or more frequently, as directed by the Board).

Section 252.34(h)(3) would require a bank holding company with total consolidated assets of \$100 billion or more to establish and maintain procedures for monitoring intraday liquidity risk exposure that are consistent with the bank holding company's capital structure, risk profile, complexity, activities, and size. If the bank holding company is a global systemically important bank holding company, Category II bank holding company, or a Category III bank holding company, these procedures must address how the management of the bank holding company will: (1) monitor and measure expected daily gross liquidity inflows and outflows; (2)

manage and transfer collateral to obtain intraday credit; (3) identify and prioritize time-specific obligations so that the bank holding company can meet these obligations as expected and settle less critical obligations as soon as possible; (4) manage the issuance of credit to customers where necessary; and (5) consider the amounts of collateral and liquidity needed to meet payment systems obligations when assessing the bank holding company's overall liquidity needs.

Category IV bank holding companies would not be subject to the proscriptive language.

Subpart L – The proposal would eliminate subpart L. In doing so, the proposal would eliminate section 252.122(b)(1)(iii), which currently requires, unless the Board otherwise determines in writing, a foreign banking organization with total consolidated assets of more than \$10 billion but less than \$50 billion or a foreign savings and loan holding company with total consolidated assets of more than \$10 billion that does not meet the home-country stress testing standards set forth in the rule to report on an annual basis a summary of the results of the stress test to the Board. This requirement would continue to exist for foreign banking organizations with total consolidated assets of more than \$100 billion in proposed sections 252.146 and 252.158 of Regulation YY, and for a foreign savings and loan holding company with total consolidated assets of more than \$250 billion in proposed section 238.162 of Regulation LL.

Subpart M – The proposal would change the applicability thresholds for application of subpart M from foreign banking organizations with between \$10 and \$50 billion in total consolidated assets to foreign banking organizations with between \$50 and \$100 billion in total consolidated assets. In doing so, the number of respondents for collections of information in section 252.132 would decrease.

Subpart N – The proposal would change the applicability thresholds for application of subpart N from foreign banking organizations with \$50 billion or more in total consolidated

assets but combined U.S. assets of less than \$50 billion to foreign banking organizations with \$100 billion or more in total consolidated assets but combined U.S. assets of less than \$100 billion. In doing so, the number of respondents for collections of information in sections 252.143, .144, .145, .146, .154, .157, and .158 would decrease. Moreover, some of the requirements in subpart N would only apply to foreign banking organizations with \$250 billion or more in total consolidated assets. These provisions include sections 252.143(a) and .145(a).

Subpart O – The proposal would change the applicability thresholds for application of subpart O from foreign banking organizations with \$50 billion or more in total consolidated assets and combined U.S. assets of \$50 billion or more to foreign banking organizations with \$100 billion or more in total consolidated assets and combined U.S. assets of \$100 billion or more. In doing so, the number of respondents for collections of information in sections 252.153, .156 and .157 would decrease. The proposal would also eliminate implementation plans in section 252.153(d), which would result in a reduction of annual burden hours.

The burden hours for compliance with sections 252.156(g)(1) and (g)(3) also would be reduced. Section 252.156(g)(1) would require a foreign banking organization with combined U.S. assets of \$100 billion or more to establish and maintain policies and procedures to monitor assets that have been or are available to be pledged as collateral in connection with transactions to which entities in its U.S. operations are counterparties. Previously, all foreign banking organizations subject to this provision were required to calculate collateral positions on a weekly basis (or more frequently, as directed by the Board). As proposed, Category IV foreign banking organizations companies would calculate all of the collateral positions for its combined U.S. operations on a monthly basis; all other foreign banking organizations with at least \$100 billion in combined U.S. assets would calculate on a weekly basis.

Section 252.156(g)(3) would require a foreign banking organization with combined U.S. assets of \$100 billion or more to establish and maintain procedures for monitoring intraday liquidity risk exposure for its combined U.S. operations that are consistent with the capital structure, risk profile, complexity, activities, and size of the foreign banking organization and its combined U.S. operations. If the foreign banking organization is a Category II foreign banking organization or a Category III foreign banking organization, these procedures must address how the management of the combined U.S. operations will: (i) monitor and measure expected gross daily inflows and outflows; (ii) manage and transfer collateral to obtain intraday credit; (3) identify and prioritize time-specific obligations so that the foreign banking organizations can meet these obligations as expected and settle less critical obligations as soon as possible; (4) manage the issuance of credit to customers where necessary; and (5) consider the amounts of collateral and liquidity needed to meet payment systems obligations when assessing the overall liquidity needs of the combined U.S. operations. Category IV foreign banking organizations would not be subject to the proscriptive language.

Current estimated annual burden: 41,619 hours.

Proposed revisions estimated annual burden: (11,238) hours.

Total estimated annual burden: 30,381 hours.

C. Regulatory Flexibility Act analysis

In accordance with the Regulatory Flexibility Act (RFA), 5 U.S.C. 601 et seq., the Board is publishing an initial regulatory flexibility analysis of the proposal. The RFA requires each federal agency to prepare an initial regulatory flexibility analysis in connection with the promulgation of a proposed rule, or certify that the proposed rule will not have a significant

economic impact on a substantial number of small entities.¹²³ Under regulations issued by the SBA, a small entity includes a bank, bank holding company, or savings and loan holding company with assets of \$550 million or less (small banking organization).¹²⁴ Based on the Board’s analysis, and for the reasons stated below, the Board believes that this proposed rule will not have a significant economic impact on a substantial of number of small banking organizations

As discussed in the Supplementary Information section, the Board is proposing to adopt amendments to Regulations Q,¹²⁵ Y,¹²⁶ LL,¹²⁷ and YY¹²⁸ that would affect the regulatory requirements that apply to foreign banking organizations and foreign savings and loan holding companies with more than \$10 billion in total consolidated assets and U.S. depository institution holding companies with \$100 billion or more in total consolidated assets. Therefore, companies that are affected by the proposal substantially exceed the \$550 million asset threshold at which a banking entity is considered a “small entity” under SBA regulations.

Because the proposal is not likely to apply to any company with assets of \$550 million or less if adopted in final form, the proposal is not expected to affect any small entity for purposes of the RFA. The Board does not believe that the proposal duplicates, overlaps, or conflicts with any other Federal rules. In light of the foregoing, the Board does not believe that the proposal, if

¹²³ See 5 U.S.C. 603, 604, and 605.

¹²⁴ See 13 CFR 121.201.

¹²⁵ 12 CFR part 217.

¹²⁶ 12 CFR part 225.

¹²⁷ 12 CFR part 238.

¹²⁸ 12 CFR part 252.

adopted in final form, would have a significant economic impact on a substantial number of small entities supervised. Nonetheless, the Board seeks comment on whether the proposal would impose undue burdens on, or have unintended consequences for, small banking organizations, and whether there are ways such potential burdens or consequences could be minimized in a manner consistent the purpose of the proposal.

DRAFT

List of Subjects

Part 217

Administrative practice and procedure, Banks, Banking, Capital, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Risk, Securities.

12 CFR Part 225

Administrative practice and procedure, Banks, Banking, Capital planning, Holding companies, Reporting and recordkeeping requirements, Securities, Stress testing.

12 CFR Part 238

Administrative practice and procedure, Banks, Banking, Federal Reserve System, Reporting and recordkeeping requirements, Securities.

12 CFR Part 252

Administrative practice and procedure, Banks, Banking, Capital planning, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities, Stress testing.

Authority and Issuance

For the reasons stated in the Supplementary Information, Chapter II of title 12 of the Code of Federal Regulations is proposed to be amended as follows:

**PART 217—CAPITAL ADEQUACY OF BANK HOLDING COMPANIES,
SAVINGS AND LOAN HOLDING COMPANIES, AND STATE MEMBER BANKS
(REGULATION Q)**

[]. The authority citation for part 217 continues to read as follows:

Authority: 12 U.S.C. 248(a), 321-338a, 481-486, 1462a, 1467a, 1818, 1828, 1831n, 1831o, 1831p-1, 1831w, 1835, 1844(b), 1851, 3904, 3906-3909, 4808, 5365, 5368, 5371.

Subpart H – Risk-based Capital Surcharge for Global Systemically Important Bank Holding Companies

[]. Section 217.400(b)(1) and (b)(2)(i) are revised and Section 217.400(b)(3) is removed, to read as follows:

§ 217.400 Purpose and applicability.

(a) * * *

(b) *Applicability*—(1) *General*. This subpart applies to a bank holding company that

(i) Is an advanced approaches Board-regulated institution or a Category III Board-regulated institution;

(ii) Is not a consolidated subsidiary of a bank holding company; and

(iii) Is not a consolidated subsidiary of a foreign banking organization.

(2) *Effective date of calculation and surcharge requirements*.

(i) A bank holding company identified in §217.400(b)(1) of this part is subject to §217.402 of this part and must determine whether it qualifies as a global systemically important

BHC beginning the year immediately following the year in which the bank holding company becomes an advanced approaches Board-regulated institution or a Category III Board-regulated institution;

(ii) * * *

PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)

[]. The authority citation for part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1828(o), 1831i, 1831p-1, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331-3351, 3906, 3907, and 3909; 15 U.S.C. 1681s, 1681w, 6801 and 6805.

Subpart A—General Provisions

[]. Section 225.8(c)(2) is removed, section (c)(1) is renumbered and section 225.8(d)(9), proposed to be amended by 83 FR 61408 (November 29, 2018), is further revised as follows:

§ 225.8 Capital planning.

* * * * *

(c) *Transitional arrangement.* (1) * * *

(2) * * *

(3) * * *

* * * * *

(d) * * *

(9) *Large and noncomplex bank holding company* means any bank holding company subject to this section that, as of December 31 of the calendar year prior to the capital plan cycle, is identified as a Category IV banking organization pursuant to 12 CFR 252.5.

* * * * *

PART 238—SAVINGS AND LOAN HOLDING COMPANIES

[]. The authority citation for part 238 continues to read as follows:

Authority: 5 U.S.C. 552, 559; 12 U.S.C. 1462, 1462a, 1463, 1464, 1467, 1467a, 1468, 1813, 1817, 1829e, 1831i, 1972, 15 U.S.C. 781.

Subpart N—Risk Committee, Liquidity Risk Management, and Liquidity Buffer Requirements for Covered Savings and Loan Holding Companies With Total Consolidated Assets of \$100 Billion or More

[] Section 238.124(a), which was proposed to be added by 83 FR 61408 (November 29, 2018), is further amended to add paragraph (a)(8).

(a) * * *

(8) *Notice and Response.* (i) If the Board determines that a savings and loan holding company must conduct liquidity stress tests according to a frequency other than the frequency provided in paragraph (a)(2)(i)-(ii) of this section, the Board will notify the savings and loan holding company before the change in frequency takes effect, and describe the basis for its determination. Within 14 calendar days of receipt of a notification under this paragraph, the savings and loan holding company may request in writing that the Board reconsider the requirement. The Board will respond in writing to the company's request for reconsideration

prior to requiring the company conduct liquidity stress tests according to a frequency other than the frequency provided in paragraph (a)(2)(i)-(ii) of this section.

* * * * *

[] Add subpart R to read as follows:

Subpart R—Company-Run Stress Test Requirements for Foreign Savings and Loan Holding Companies With Total Consolidated Assets Over \$250 Billion

Sec.

238.160 Definitions.

238.161 Applicability

238.162 Capital stress testing requirements.

§ 238.160 Definitions.

For purposes of this subpart, the following definitions apply:

(a) *Foreign savings and loan holding company* means a savings and loan holding company as defined in section 10 of the Home Owners' Loan Act (12 U.S.C. 1467a(a)) that is incorporated or organized under the laws of a country other than the United States.

(b) *Pre-provision net revenue* means revenue less expenses before adjusting for total loan loss provisions.

(c) *Stress test cycle* has the same meaning as in subpart O of this part.

(d) *Total loan loss provisions* means the amount needed to make reserves adequate to absorb estimated credit losses, based upon management's evaluation of the loans and leases that the company has the intent and ability to hold for the foreseeable future or until maturity or payoff, as determined under applicable accounting standards.

§ 238.161 Applicability.

(a) *Applicability for foreign savings and loan holding companies with total consolidated assets of more than \$250 billion*—(1) *General*. A foreign savings and loan holding company must comply with the stress test requirements set forth in this section beginning on the first day of the ninth quarter following the date on which its total consolidated assets exceed \$250 billion.

(2) *Total consolidated assets*. Total consolidated assets of a foreign savings and loan holding company for purposes of this subpart are equal to the average of total assets for the four most recent calendar quarters as reported by the foreign savings and loan holding company on its applicable regulatory report. If the foreign savings and loan holding company has reported total consolidated assets for the four most recent calendar quarters, total consolidated assets are equal to the average of total consolidated assets as reported for the most recent quarter or quarters, or most recent year.

(3) *Cessation of requirements*. A foreign savings and loan holding company will remain subject to requirements of this subpart until the date on which the foreign savings and loan holding company's total consolidated assets are below \$250 billion for each of four most recent calendar quarters.

§ 238.162 Capital stress testing requirements.

(a) *In general*. (1) A foreign savings and loan holding company with total consolidated assets of more than \$250 billion must:

(i) Be subject on a consolidated basis to a capital stress testing regime by its home-country supervisor that meets the requirements of paragraph (a)(2) of this section; and

(ii) Conduct such stress tests or be subject to a supervisory stress test and meet any minimum standards set by its home-country supervisor with respect to the stress tests.

(2) The capital stress testing regime of a foreign savings and loan holding company's home-country supervisor must include:

(i) A supervisory capital stress test conducted by the relevant home-country supervisor or an evaluation and review by the home-country supervisor of an internal capital adequacy stress test conducted by the foreign savings and loan holding company, conducted on at least a biennial basis; and

(ii) Requirements for governance and controls of stress testing practices by relevant management and the board of directors (or equivalent thereof).

(b) *Additional standards.* (1) Unless the Board otherwise determines in writing, a foreign savings and loan holding company that does not meet each of the requirements in paragraph (a)(1) and (2) of this section must:

(i) Conduct an annual stress test of its U.S. subsidiaries to determine whether those subsidiaries have the capital necessary to absorb losses as a result of adverse economic conditions; and

(ii) Report on at least a biennial basis a summary of the results of the stress test to the Board that includes a description of the types of risks included in the stress test, a description of the conditions or scenarios used in the stress test, a summary description of the methodologies used in the stress test, estimates of aggregate losses, pre-provision net revenue, total loan loss provisions, net income before taxes and pro forma regulatory capital ratios required to be computed by the home-country supervisor of the foreign savings and loan holding company and any other relevant capital ratios, and an explanation of the most significant causes for any changes in regulatory capital ratios.

(2) An enterprise-wide stress test that is approved by the Board may meet the stress test requirement of paragraph (b)(1)(ii) of this section.

PART 252—ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)

[]. The authority citation for part 252 continues to read as follows:

Authority: 12 U.S.C. 321–338a, 481–486, 1467a, 1818, 1828, 1831n, 1831o, 1831p–l, 1831w, 1835, 1844(b), 1844(c), 3101 et seq., 3101 note, 3904, 3906–3909, 4808, 5361, 5362, 5365, 5366, 5367, 5368, 5371.

Subpart A—General Provisions

[]. Amend § 252.1 by adding paragraph (c):

§ 252.1 Authority and purpose.

* * * * *

(c) *Reservation of authority.* The Board may permit a foreign banking organization to comply with the requirements of this part through a subsidiary foreign bank or company of the foreign banking organization. In making this determination, the Board shall consider: (1) the ownership structure of the foreign banking organization, including whether the foreign banking organization is owned or controlled by a foreign government; (2) whether the action would be consistent with the purposes of this part; and (3) any other factors that the Board determines are relevant.

[]. Section 252.2 is revised as follows:

§ 252.2 Definitions.

Unless otherwise specified, the following definitions apply for purposes of this part:

Affiliate has the same meaning as in section 2(k) of the Bank Holding Company Act (12 U.S.C. 1841(k)) and § 225.2(a) of this chapter.

Applicable accounting standards means U.S. generally accepted accounting principles, international financial reporting standards, or such other accounting standards that a company uses in the ordinary course of its business in preparing its consolidated financial statements.

Average combined U.S. assets means the average of combined U.S. assets for the four most recent calendar quarters or, if the banking organization has not reported combined U.S. assets for each of the four most recent calendar quarters, the average of combined U.S. assets for the most recent calendar quarter or quarters, as applicable.

Average cross-jurisdictional activity means the average of cross jurisdictional activity for the four most recent calendar quarters or, if the banking organization has not reported cross-jurisdictional activity for each of the four most recent calendar quarters, the average of cross-jurisdictional activity for the most recent calendar quarter or quarters, as applicable.

Average off-balance sheet exposure means the average of off-balance sheet exposure for the four most recent calendar quarters or, if the banking organization has not reported total exposure and total consolidated assets for each of the four most recent calendar quarters, the average of off-balance sheet exposure for the most recent calendar quarter or quarters, as applicable.

Average total consolidated assets means the average of total consolidated assets for the four most recent calendar quarters or, if the banking organization has not reported total consolidated assets for each of the four most recent calendar quarters, the average of total consolidated assets for the most recent calendar quarter or quarters, as applicable.

Average total nonbank assets means the average of total nonbank assets for the four most recent calendar quarters or, if the banking organization has not reported or calculated total nonbank assets for each of the four most recent calendar quarters, the average of total nonbank assets, for the most recent calendar quarter or quarters, as applicable.

Average weighted short-term wholesale funding means the average of weighted short-term wholesale funding for each of the four most recent calendar quarters or, if the banking organization has not reported weighted short-term wholesale funding for each of the four most recent calendar quarters, the average of weighted short-term wholesale funding for the most recent quarter or quarters, as applicable.

Bank holding company has the same meaning as in section 2(a) of the Bank Holding Company Act (12 U.S.C. 1841(a)) and §225.2(c) of this chapter.

Banking organization means

- (1) A bank holding company that is:
 - (i) Incorporated in or organized under the laws of the United States or in any State; and
 - (ii) Not a consolidated subsidiary of a bank holding company that is incorporated in or organized under the laws of the United States or in any State;
- (2) A U.S. intermediate holding company; or
- (3) A foreign banking organization.

Board means the Board of Governors of the Federal Reserve System.

Category II bank holding company means a bank holding company identified as a Category II banking organization pursuant to §252.5.

Category III bank holding company means a bank holding company identified as a Category III banking organization pursuant to §252.5.

Category IV bank holding company means a bank holding company identified as a Category IV banking organization pursuant to §252.5.

Category II U.S. intermediate holding company means a U.S. intermediate holding company identified as a Category II banking organization pursuant to §252.5.

Category III U.S. intermediate holding company means a U.S. intermediate holding company identified as a Category III banking organization pursuant to §252.5.

Category IV U.S. intermediate holding company means a U.S. intermediate holding company identified as a Category IV banking organization pursuant to §252.5.

Category II foreign banking organization means a foreign banking organization identified as a Category II banking organization pursuant to §252.5.

Category III foreign banking organization means a foreign banking organization identified as a Category III banking organization pursuant to §252.5.

Category IV foreign banking organization means a foreign banking organization identified as a Category IV banking organization pursuant to §252.5.

Combined U.S. assets means the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization (excluding any section 2(h)(2) company, if applicable) and the total assets of each U.S. branch and U.S. agency of the foreign banking organization, as reported by the foreign banking organization on the FR Y-7Q.

Combined U.S. operations means:

- (1) The U.S. branches and agencies of the foreign banking organization, if any; and
- (2) The U.S. subsidiaries of the foreign banking organization (excluding any section 2(h)(2) company, if applicable) and subsidiaries of such U.S. subsidiaries.

Company means a corporation, partnership, limited liability company, depository institution, business trust, special purpose entity, association, or similar organization.

Control has the same meaning as in section 2(a) of the Bank Holding Company Act (12 U.S.C. 1841(a)), and the terms controlled and controlling shall be construed consistently with the term control.

Council means the Financial Stability Oversight Council established by section 111 of the Dodd-Frank Act (12 U.S.C. 5321).

Credit enhancement means a qualified financial contract of the type set forth in section 210(c)(8)(D)(ii)(XII), (iii)(X), (iv)(V), (v)(VI), or (vi)(VI) of Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5390(c)(8)(D)(ii)(XII), (iii)(X), (iv)(V), (v)(VI), or (vi)(VI)) or a credit enhancement that the Federal Deposit Insurance Corporation determines by regulation is a qualified financial contract pursuant to section 210(c)(8)(D)(i) of Title II of the act (12 U.S.C. 5390(c)(8)(D)(i)).

Cross-jurisdictional activity. (1) The cross-jurisdictional activity of a bank holding company is equal to the sum of its cross-jurisdictional claims and cross-jurisdictional liabilities, as reported on the FR Y-15.

(2) The cross-jurisdictional activity of a U.S. intermediate holding company is equal to the sum of cross-jurisdictional claims and cross-jurisdictional liabilities of the U.S. intermediate holding company, as reported on the FR Y-15.

(3) The cross-jurisdictional activity of a foreign banking organization is equal to the sum of cross-jurisdictional claims and cross-jurisdictional liabilities of the combined U.S. operations of the foreign banking organization, as reported on the FR Y-15.

Depository institution has the same meaning as in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)).

DPC branch subsidiary means any subsidiary of a U.S. branch or a U.S. agency acquired, or formed to hold assets acquired, in the ordinary course of business and for the sole purpose of securing or collecting debt previously contracted in good faith by that branch or agency.

Foreign banking organization has the same meaning as in §211.21(o) of this chapter, provided that if the top-tier foreign banking organization is incorporated in or organized under the laws of any State, the foreign banking organization shall not be treated as a foreign banking organization for purposes of this part.

FR Y-7 means the Annual Report of Foreign Banking Organizations reporting form.

FR Y-7Q means the Capital and Asset Report for Foreign Banking Organizations reporting form.

FR Y-9C means the Consolidated Financial Statements for Holding Companies reporting form.

FR Y-9LP means the Parent Company Only Financial Statements of Large Holding Companies.

FR Y-15 means the Banking Organization Systemic Risk Report.

Global methodology means the assessment methodology and the higher loss absorbency requirement for global systemically important banks issued by the Basel Committee on Banking Supervision, as updated from time to time.

Global systemically important BHC means a bank holding company identified as a global systemically important BHC pursuant to 12 CFR 217.402.

Global systemically important banking organization means a global systemically important bank, as such term is defined in the global methodology.

Global systemically important foreign banking organization means a top-tier foreign banking organization that is identified as a global systemically important foreign banking organization under §252.153(b)(4).

GAAP means generally accepted accounting principles as used in the United States.

Home country, with respect to a foreign banking organization, means the country in which the foreign banking organization is chartered or incorporated.

Home country resolution authority, with respect to a foreign banking organization, means the governmental entity or entities that under the laws of the foreign banking organization's home country has responsibility for the resolution of the top-tier foreign banking organization.

Home-country supervisor, with respect to a foreign banking organization, means the governmental entity or entities that under the laws of the foreign banking organization's home country has responsibility for the supervision and regulation of the top-tier foreign banking organization.

Nonbank financial company supervised by the Board means a company that the Council has determined under section 113 of the Dodd-Frank Act (12 U.S.C. 5323) shall be supervised by the Board and for which such determination is still in effect.

Non-U.S. affiliate means any affiliate of a foreign banking organization that is incorporated or organized in a country other than the United States.

Off-balance sheet exposure. (1) The off-balance sheet exposure of a bank holding company or U.S. intermediate holding company is equal to:

(i) The total exposure of such banking organization, as reported by the banking organization on the FR Y-15; minus

(ii) The total consolidated assets of such banking organization for the same calendar quarter.

(2) The off-balance sheet exposure of a foreign banking organization is equal to:

(i) The total exposure of combined U.S. operations of the foreign banking organization, as reported by such foreign banking organization on the FR Y-15; minus

(ii) The combined U.S. assets of the foreign banking organization for the same calendar quarter.

Publicly traded means an instrument that is traded on:

(1) Any exchange registered with the U.S. Securities and Exchange Commission as a national securities exchange under section 6 of the Securities Exchange Act of 1934 (15 U.S.C. 78f); or

(2) Any non-U.S.-based securities exchange that:

(i) Is registered with, or approved by, a non-U.S. national securities regulatory authority; and

(ii) Provides a liquid, two-way market for the instrument in question, meaning that there are enough independent bona fide offers to buy and sell so that a sales price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined promptly and a trade can be settled at such price within a reasonable time period conforming with trade custom.

(3) A company can rely on its determination that a particular non-U.S.-based securities exchange provides a liquid two-way market unless the Board determines that the exchange does not provide a liquid two-way market.

Section 2(h)(2) company has the same meaning as in section 2(h)(2) of the Bank Holding Company Act (12 U.S.C. 1841(h)(2)).

State means any state, commonwealth, territory, or possession of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, American Samoa, Guam, or the United States Virgin Islands.

Subsidiary has the same meaning as in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813).

Top-tier foreign banking organization, with respect to a foreign bank, means the top-tier foreign banking organization or, alternatively, a subsidiary of the top-tier foreign banking organization designated by the Board.

Total consolidated assets. (1) Total consolidated assets of a bank holding company or a U.S. intermediate holding company is equal to the total consolidated assets of such banking organization, as reported on the FR Y-9C.

(2) Total consolidated assets of a foreign banking organization is equal to the total consolidated assets of the foreign banking organization, as reported on the FR Y-7Q.

Total nonbank assets. (1) Total nonbank assets of a bank holding company or U.S. intermediate holding company is equal to the total nonbank assets of such banking organization, as reported on the FR Y-9LP.

(2) Total nonbank assets of a foreign banking organization are equal to:

(i) The sum of the assets of the foreign banking organization's nonbank U.S. subsidiaries, including the total nonbank assets of any U.S. intermediate holding company, excluding the assets of any section 2(h)(2) company; plus

(ii) The sum of the foreign banking organization's equity investments in unconsolidated subsidiaries, excluding equity investments in any section 2(h)(2) company.

U.S. agency has the same meaning as the term "agency" in §211.21(b) of this chapter.

U.S. branch has the same meaning as the term "branch" in §211.21(e) of this chapter.

U.S. branches and agencies means the U.S. branches and U.S. agencies of a foreign banking organization.

U.S. government agency means an agency or instrumentality of the United States whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States.

U.S. government-sponsored enterprise means an entity originally established or chartered by the U.S. government to serve public purposes specified by the U.S. Congress, but whose obligations are not explicitly guaranteed by the full faith and credit of the United States.

U.S. intermediate holding company means the top-tier U.S. company that is required to be established pursuant to § 252.147 or § 252.153.

U.S. subsidiary means any subsidiary that is incorporated in or organized under the laws of the United States or in any State, commonwealth, territory, or possession of the United States, the Commonwealth of Puerto Rico, the Commonwealth of the North Mariana Islands, the American Samoa, Guam, or the United States Virgin Islands.

Weighted short-term wholesale funding means the weighted short-term wholesale funding of a banking organization, as reported on the FR Y-15.

[]. Section 252.5 is added as follows:

§ 252.5 Categorization of banking organizations.

(a) *General.* (1) A bank holding company with average total consolidated assets of \$100 billion or more must determine its category among the four categories described in paragraphs (b) through (e) of this section at least quarterly.

(2) A U.S. intermediate holding company with average total consolidated assets of \$100 billion or more must determine its category among the three categories described in paragraphs (c) through (e) of this section at least quarterly.

(3) A foreign banking organization with total consolidated assets of \$100 billion or more and average combined U.S. assets of \$100 billion or more must determine its category among the three categories described in paragraphs (c) through (e) of this section at least quarterly.

(b) *Global systemically important BHC.* A banking organization is a global systemically important BHC if it is identified as a global systemically important BHC pursuant to 12 CFR 217.402.

(c) *Category II.* (1) A banking organization is a Category II banking organization if the banking organization:

(i) Has:

(A)(1) For a bank holding company or U.S. intermediate holding company, \$700 billion or more in average total consolidated assets;

(2) For a foreign banking organization, \$700 billion or more in average combined U.S. assets; or

(B)(1) Has \$75 billion or more in average cross-jurisdictional activity; and

(2)(i) For a bank holding company or a U.S. intermediate holding company, \$100 billion or more in average total consolidated assets; or

(ii) For a foreign banking organization, \$100 billion or more in average combined U.S. assets; and

(ii) Is not a global systemically important BHC.

(2) After meeting the criteria in paragraph (c)(1) of this section, a banking organization continues to be a Category II banking organization until the banking organization:

(i) Has:

(A)(1) For a bank holding company or a U.S. intermediate holding company, less than \$700 billion in total consolidated assets for each of the four most recent calendar quarters; or

(2) For a foreign banking organization, less than \$700 billion in combined U.S. assets for each of the four most recent calendar quarters; and

(B) Less than \$75 billion in cross-jurisdictional activity for each of the four most recent calendar quarters;

(ii)(A) For a bank holding company or a U.S. intermediate holding company, less than \$100 billion in total consolidated assets for each of the four most recent calendar quarters;

(B) For a foreign banking organization, less than \$100 billion in combined U.S. assets for each of the four most recent calendar quarters; or

(iii) Meets the criteria in paragraph (b)(1) to be a global systemically important BHC.

(d) *Category III.* (1) A banking organization is a Category III banking organization if the banking organization:

(i) Has:

(A)(1) For a bank holding company or a U.S. intermediate holding company, \$250 billion or more in average total consolidated assets; or

(2) For a foreign banking organization, \$250 billion or more in average combined U.S. assets; or

(B)(1)(i) For a bank holding company or a U.S. intermediate holding company, \$100 billion or more in average total consolidated assets; or

(ii) For a foreign banking organization, \$100 billion in average combined U.S. assets; and

(2) At least:

(i) \$75 billion in average total nonbank assets;

(ii) \$75 billion in average weighted short-term wholesale funding; or

(iii) \$75 billion in average off-balance sheet exposure;

(ii) Is not a global systemically important BHC; and

(iii) Is not a Category II banking organization.

(2) After meeting the criteria in paragraph (d)(1) of this section, a banking organization continues to be a Category III banking organization until the banking organization:

(i) Has:

(A)(1) For a bank holding company or U.S. intermediate holding company, less than \$250 billion in total consolidated assets for each of the four most recent calendar quarters; or

(2) For a foreign banking organization, less than \$250 billion in combined U.S. assets for each of the four most recent calendar quarters;

(B) Less than \$75 billion in total nonbank assets for each of the four most recent calendar quarters;

(C) Less than \$75 billion in weighted short-term wholesale funding for each of the four most recent calendar quarters; and

(D) Less than \$75 billion in off-balance sheet exposure for each of the four most recent calendar quarters; or

(ii) Has:

(A) For a bank holding company or U.S. intermediate holding company, less than \$100 billion in total consolidated assets for each of the four most recent calendar quarters; or

(B) For a foreign banking organization, less than \$100 billion in combined U.S. assets for each of the four most recent calendar quarters;

(iii) Meets the criteria in paragraph (b)(1) of this section to be a global systemically important BHC; or

(iv) Meets the criteria in paragraph (c)(1) of this section to be a Category II banking organization.

(e) *Category IV.* (1) A banking organization is a Category IV banking organization if the banking organization:

(i) Is not global systemically important BHC;

(ii) Is not a Category II banking organization;

(iii) Is not a Category III banking organization; and

(iv) Has:

(A) For a bank holding company or a U.S. intermediate holding company, average total consolidated assets of \$100 billion or more; or

(B) For a foreign banking organization, average combined U.S. assets of \$100 billion or more.

(2) After meeting the criteria in paragraph (e)(1), a banking organization continues to be a Category IV banking organization until the banking organization:

(i) Has:

(A) For a bank holding company or a U.S. intermediate holding company, less than \$100 billion in total consolidated assets for each of the four most recent calendar quarters;

(B) For a foreign banking organization, less than \$100 billion in combined U.S. assets for each of the four most recent calendar quarters;

(ii) Meets the criteria in paragraph (b)(1) of this section to be a global systemically important BHC;

(iii) Meets the criteria in paragraph (c)(1) of this section to be a Category II banking organization; or

(iv) Meets the criteria in paragraph (d)(1) of this section to be a Category III banking organization.

* * * * *

Subpart D- Enhanced Prudential Standards for Bank Holding Companies with Total Consolidated Assets of \$100 Billion or more.

[] Section 252.35(a), as proposed to be amended by 83 FR 61408 (November 29, 2018), is further amended to add paragraph (a)(8).

(a) * * *

(8) *Notice and Response.* (i) If the Board determines that a bank holding company must conduct liquidity stress tests according to a frequency other than the frequency provided in paragraph (a)(2)(i)-(ii) of this section, the Board will notify the bank holding company before the

change in frequency takes effect, and describe the basis for its determination. Within 14 calendar days of receipt of a notification under this paragraph, the bank holding company may request in writing that the Board reconsider the requirement. The Board will respond in writing to the company's request for reconsideration prior to requiring the company conduct liquidity stress tests according to a frequency other than the frequency provided in paragraph (a)(2)(i)-(ii) of this section.

* * * * *

Subpart E—Supervisory Stress Test Requirements for Certain U.S. Banking Organizations With \$100 Billion or More in Total Consolidated Assets and Nonbank Financial Companies Supervised by the Board

[] The heading of subpart E is revised to read as set forth above.

[]. Section 252.43(a), as proposed to be revised by 83 FR 61408 (November 29, 2018), is further amended by revising paragraph (a)(2) to read as follows:

(a) * * * (1) * * *

(2) *Ongoing applicability.* A bank holding company or U.S. intermediate holding company (including any successor company) that is subject to any requirement in this subpart shall remain subject to any such requirement unless and until its total consolidated assets fall below \$100 billion for each of four consecutive quarters, as reported on the FR Y-9C and, effective on the as-of date of the fourth consecutive FR Y-9C.

* * * * *

[]. Section 252.44(c), as proposed to be added by 83 FR 61408 (November 29, 2018), is revised as follows:

§ 252.44 Analysis conducted by the Board.

(c) *Frequency of analysis conducted by the Board.* (1) Except as provided in paragraph (c)(2) of this section, the Board will conduct its analysis of a covered company on an annual basis.

(2) The Board will conduct its analysis of a Category IV bank holding company or a Category IV U.S. intermediate holding company on a biennial basis and occurring in each year ending in an even number.

* * * * *

Subpart F—Company-Run Stress Test Requirements for Certain U.S. Bank Holding Companies and Nonbank Financial Companies Supervised by the Board

[]. The heading of subpart F is revised to read as set forth above.

[]. Section 252.53(a), is revised to read as follows:

§ 252.53 Applicability.

(a) *Scope—(1) Applicability.* Except as provided in paragraph (b) of this section, this subpart applies to any covered company, which includes:

(i) Any bank holding company with average total consolidated assets of \$100 billion or more;

(ii) Any Category II U.S. intermediate holding company subject to this section pursuant to §252.153 of this part;

(iii) Any Category III U.S. intermediate holding company subject to this section pursuant to §252.153 of this part; and

(iv) Any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board.

(2) *Ongoing applicability.* (i) A bank holding company (including any successor company) that is subject to any requirement in this subpart shall remain subject to any such requirement unless and until the bank holding company

(A) Is not a global systemically important BHC;

(B) Is not a Category II bank holding company; and

(C) Is not a Category III bank holding company.

(ii) A U.S. intermediate holding company (including any successor company) that is subject to any requirement in this subpart shall remain subject to any such requirement unless and until the U.S. intermediate holding company

(A) Is not a Category II U.S. intermediate holding company; and

(B) Is not a Category III U.S. intermediate holding company.

* * * * *

[]. Section 252.54, proposed to be amended by 83 FR 61408 (November 29, 2018), is further amended by revising paragraph (a) to read as follows:

§ 252.54 Stress test.

(a) Stress test—(1) *In general.* A covered company must conduct a stress test as required under this subpart.

(2) *Frequency.* (i) Except as provided in paragraph (a)(2)(ii) of this section, a covered company must conduct an annual stress test. The stress test must be conducted by April 5 of each calendar year based on data as of December 31 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing.

(ii) A Category III bank holding company or a Category III U.S. intermediate holding company must conduct a biennial stress test. The stress test must be conducted by April 5 of each

calendar year ending in an even number, based on data as of December 31 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing.

* * * * *

[]. Section 252.55 is removed and reserved:

[]. In Section 252.56, revise the introductory text to paragraph (a), the introductory text to paragraph (b), and paragraph (c)(1) to read as follows:

§ 252.56 Methodologies and practices.

(a) *Potential impact on capital.* In conducting a stress test under §252.54, for each quarter of the planning horizon, a covered company must estimate the following for each scenario required to be used:

* * * * *

(b) *Assumptions regarding capital actions.* In conducting a stress test under §252.54, a covered company is required to make the following assumptions regarding its capital actions over the planning horizon:

* * * * *

(c) * * * (1) *In general.* The senior management of a covered company must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in this subpart. These policies and procedures must, at a minimum, describe the covered company's stress testing practices and methodologies, and processes for validating and updating the company's stress test practices and methodologies consistent with applicable laws and regulations.

* * * * *

[]. Section 252.57(a), as proposed to be amended 83 FR 61408 (November 29, 2018), is further amended as follows:

§ 252.57 Reports of stress test results.

(a) *Reports to the Board of stress test results.* A covered company must report the results of the stress test required under §252.54 to the Board in the manner and form prescribed by the Board. Such results must be submitted by April 5 of the calendar year in which the stress test is performed pursuant to §252.54, unless that time is extended by the Board in writing.

* * * * *

[]. Section 252.58 paragraph (a)(1) proposed to be amended by 83 FR 61408 (November 29, 2018), is further amended to read as follows:

§ 252.58 Disclosure of stress test results.

(a) *Public disclosure of results—(1) In general.* A covered company must publicly disclose a summary of the results of the stress test required under §252.54 within the period that is 15 calendar days after the Board publicly discloses the results of its supervisory stress test of the covered company pursuant to §252.46(c), unless that time is extended by the Board in writing.

* * * * *

[] Remove and reserve Subpart L – Company-Run Stress Test Requirements for Foreign Banking Organizations and Foreign Savings and Loan Holding Companies With Total Consolidated Assets Over \$10 Billion but Less Than \$50 billion.

[] Subpart M is retitled as follows:

Subpart M—Risk Committee Requirement for Foreign Banking Organizations

With Total Consolidated Assets of at Least \$50 Billion but Less Than \$100 Billion

[] Paragraphs (a) and (c) of section 252.131 are revised to read as follows:

§252.131 Applicability.

(a) *General applicability.* A foreign banking organization with total consolidated assets of at least \$50 billion but less than \$100 billion must comply with the risk-committee requirements set forth in this subpart beginning on the first day of the ninth quarter following the date on which its total consolidated assets equal or exceed \$50 billion.

(b) * * *

(c) *Cessation of requirements.* A foreign banking organization will remain subject to the risk-committee requirements of this section until the earlier of the date on which:

(i) Its reported total consolidated assets on the FR Y-7 are below \$50 billion for each of four consecutive calendar quarters; and

(ii) It becomes subject to the requirements of subpart N or subpart O of this part.

[] Section [] is retitled and paragraphs (a) and (d) are revised to read as follows:

§252.132 Risk-committee requirements for foreign banking organizations with total consolidated assets of \$50 billion or more but less than \$100 billion.

(a) *U.S. risk committee certification.* A foreign banking organization with total consolidated assets of at least \$50 billion but less than \$100 billion, must, on an annual basis, certify to the Board that it maintains a committee of its global board of directors (or equivalent thereof), on a standalone basis or as part of its enterprise-wide risk committee (or equivalent thereof) that:

(1) * * *

(2)* * *

(c) * * *

(d) *Noncompliance with this section.* If a foreign banking organization does not satisfy the requirements of this section, the Board may impose requirements, conditions, or restrictions relating to the activities or business operations of the combined U.S. operations of the foreign banking organization. The Board will coordinate with any relevant State or Federal regulator in the implementation of such requirements, conditions, or restrictions. If the Board determines to impose one or more requirements, conditions, or restrictions under this paragraph, the Board will notify the organization before it applies any requirement, condition or restriction, and describe the basis for imposing such requirement, condition, or restriction. Within 14 calendar days of receipt of a notification under this paragraph, the company may request in writing that the Board reconsider the requirement, condition, or restriction. The Board will respond in writing to the organization's request for reconsideration prior to applying the requirement, condition, or restriction.

Subpart N is retitled as follows:

**Subpart N—Enhanced Prudential Standards for Foreign Banking Organizations
With Total Consolidated Assets of \$100 Billion or More But Combined U.S. Assets of Less
Than \$100 Billion**

Section 252.140 is revised to read as follows:

§252.140 Scope. This subpart applies to foreign banking organizations with total consolidated assets of \$100 billion or more, but combined U.S. assets of less than \$100 billion.

[] Paragraphs (a), (b)(3), and (c) of section 252.142 are revised to read as follows:

§252.142 Applicability.

(a) *General applicability.* A foreign banking organization with total consolidated assets of \$100 billion or more and combined U.S. assets of less than \$100 billion must:

(1) Comply with the capital stress testing, risk-management and risk committee requirements set forth in this subpart beginning no later than on the first day of the ninth quarter the date on which its total consolidated assets equal or exceed \$100 billion; and

(2) Comply with the risk-based and leverage capital requirements and liquidity risk-management requirements set forth in this subpart beginning no later than on the first day of the ninth quarter following the date on which its total consolidated assets equal or exceed \$250 billion; and

(3) Comply with the U.S. intermediate holding company requirement set forth in §252.147 beginning no later than on the first day of the ninth quarter following the date on which its U.S. non-branch assets equal or exceed \$50 billion.

(b) * * *

(1) * * *

(2) * * *

(3) *U.S. non-branch assets.* U.S. non-branch assets are equal to the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization (excluding any section 2(h)(2) company and DPC branch subsidiary, if applicable).

(i) For purposes of this subpart, U.S. non-branch assets of a foreign banking organization are calculated as the average of the sum of the total consolidated assets of the top-tier U.S. subsidiaries of the foreign banking organization (excluding any section 2(h)(2) company and

DPC branch subsidiary) for the four most recent consecutive quarters, as reported to the Board on the FR Y-7Q, or, if the foreign banking organization has not reported this information on the FR Y-7Q for each of the four most recent consecutive quarters, the average for the most recent quarter or consecutive quarters as reported on the FR Y-7Q.

(ii) In calculating U.S. non-branch assets, a foreign banking organization must reduce its U.S. non-branch assets calculated under this paragraph by the amount corresponding to balances and transactions between a top-tier U.S. subsidiary and any other top-tier U.S. subsidiary (excluding any 2(h)(2) company or DPC branch subsidiary) to the extent such items are not already eliminated in consolidation.

(iii) U.S. non-branch assets are measured on the as-of date of the most recent FR Y-7Q used in the calculation of the average.

(c) *Cessation of requirements.* (1) *Enhanced prudential standards applicable to the foreign banking organization.* A foreign banking organization will remain subject to the requirements set forth in this subpart until its reported total assets on the FR Y-7Q are below \$100 billion for each of four consecutive calendar quarters, or it becomes subject to the requirements of subpart O of this part.

(2) *Intermediate holding company requirement.* A foreign banking organization will remain subject to the U.S. intermediate holding company requirement set forth in §252.147 until the sum of the total consolidated assets of the top-tier U.S. subsidiaries of the foreign banking organization (excluding any section 2(h)(2) company and DPC branch subsidiary) is below \$50 billion for each of four consecutive calendar quarters, or it becomes subject to the U.S. intermediate holding company requirements of subpart O of this part.

[] Section 252.143 is retitled and paragraphs (a)(1), (b), and (c) are revised to read as follows:

§252.143 Risk-based and leverage capital requirements for foreign banking organizations with total consolidated assets of \$250 billion or more but combined U.S. assets of less than \$100 billion.

(a) *General requirements.* (1) A foreign banking organization with total consolidated assets of \$250 billion or more and combined U.S. assets of less than \$100 billion must certify to the Board that it meets capital adequacy standards on a consolidated basis established by its home-country supervisor that are consistent with the regulatory capital framework published by the Basel Committee on Banking Supervision, as amended from time to time (Basel Capital Framework).

(i) * * *

(ii) [Reserved]

(2) * * *

(b) *Reporting.* A foreign banking organization with total consolidated assets of \$250 billion or more and combined U.S. assets of less than \$100 billion must provide to the Board reports relating to its compliance with the capital adequacy measures described in paragraph (a) of this section concurrently with filing the FR Y-7Q.

(c) *Noncompliance with the Basel Capital Framework.* If a foreign banking organization does not satisfy the requirements of this section, the Board may impose requirements, conditions, or restrictions, including risk-based or leverage capital requirements, relating to the activities or business operations of the U.S. operations of the organization. The Board will coordinate with

any relevant State or Federal regulator in the implementation of such requirements, conditions, or restrictions. If the Board determines to impose one or more requirements, conditions, or restrictions under this paragraph, the Board will notify the organization before it applies any requirement, condition or restriction, and describe the basis for imposing such requirement, condition, or restriction. Within 14 calendar days of receipt of a notification under this paragraph, the organization may request in writing that the Board reconsider the requirement, condition, or restriction. The Board will respond in writing to the organization's request for reconsideration prior to applying the requirement, condition, or restriction.

[] Section [] is retitled and revised to read as follows:

§252.144 Risk-management and risk committee requirements for foreign banking organizations with total consolidated assets of \$100 billion or more but combined U.S. assets of less than \$100 billion.

(a) *Risk-management and risk-committee requirements for foreign banking organizations with combined U.S. assets of less than \$50 billion.*

(1) *U.S. risk committee certification.* Each foreign banking organization with combined U.S. assets of less than \$50 billion must, on an annual basis, certify to the Board that it maintains a committee of its global board of directors (or equivalent thereof), on a standalone basis or as part of its enterprise-wide risk committee (or equivalent thereof) that:

(i) Oversees the risk management policies of the combined U.S. operations of the foreign banking organization; and

(ii) Includes at least one member having experience in identifying, assessing, and managing risk exposures of large, complex firms.

(2) *Timing of certification.* The certification required under paragraph (a) of this section must be filed on an annual basis with the Board concurrently with the FR Y-7.

(b) *Risk-management and risk committee requirements for foreign banking organizations with combined U.S. assets of more than \$50 billion but less than \$100 billion.* (1) *U.S. risk committee—(i) General.* Each foreign banking organization with combined U.S. assets of more than \$50 billion but less than \$100 billion must maintain a U.S. risk committee that approves and periodically reviews the risk management policies of the combined U.S. operations of the foreign banking organization and oversees the risk-management framework of such combined U.S. operations.

(ii) *Risk-management framework.* The foreign banking organization's risk-management framework for its combined U.S. operations must be commensurate with the structure, risk profile, complexity, activities, and size of its combined U.S. operations and consistent with its enterprise-wide risk management policies. The framework must include:

(A) Policies and procedures establishing risk-management governance, risk-management procedures, and risk-control infrastructure for the combined U.S. operations of the foreign banking organization; and

(B) Processes and systems for implementing and monitoring compliance with such policies and procedures, including:

(1) Processes and systems for identifying and reporting risks and risk-management deficiencies, including regarding emerging risks, on a combined U.S. operations basis and ensuring effective and timely implementation of actions to address emerging risks and risk-management deficiencies;

(2) Processes and systems for establishing managerial and employee responsibility for risk management of the combined U.S. operations;

(3) Processes and systems for ensuring the independence of the risk-management function of the combined U.S. operations; and

(4) Processes and systems to integrate risk management and associated controls with management goals and the compensation structure of the combined U.S. operations.

(iii) *Placement of the U.S. risk committee.* (A) A foreign banking organization that conducts its operations in the United States solely through a U.S. intermediate holding company must maintain its U.S. risk committee as a committee of the board of directors of its U.S. intermediate holding company (or equivalent thereof).

(B) A foreign banking organization that conducts its operations through U.S. branches or U.S. agencies (in addition to through its U.S. intermediate holding company, if any) may maintain its U.S. risk committee either:

(1) As a committee of the global board of directors (or equivalent thereof), on a standalone basis or as a joint committee with its enterprise-wide risk committee (or equivalent thereof); or

(2) As a committee of the board of directors of its U.S. intermediate holding company (or equivalent thereof), on a standalone basis or as a joint committee with the risk committee of its U.S. intermediate holding company required pursuant to §252.147(e)(3).

(iv) *Corporate governance requirements.* The U.S. risk committee must meet at least quarterly and otherwise as needed, and must fully document and maintain records of its proceedings, including risk-management decisions.

(v) *Minimum member requirements.* The U.S. risk committee must:

(A) Include at least one member having experience in identifying, assessing, and managing risk exposures of large, complex financial firms; and

(B) Have at least one member who:

(1) Is not an officer or employee of the foreign banking organization or its affiliates and has not been an officer or employee of the foreign banking organization or its affiliates during the previous three years; and

(2) Is not a member of the immediate family, as defined in §225.41(b)(3) of the Board's Regulation Y (12 CFR 225.41(b)(3)), of a person who is, or has been within the last three years, an executive officer, as defined in §215.2(e)(1) of the Board's Regulation O (12 CFR 215.2(e)(1)) of the foreign banking organization or its affiliates.

(c) *U.S. chief risk officer*—(1) *General*. A foreign banking organization with combined U.S. assets of more than \$50 billion but less than \$100 billion or its U.S. intermediate holding company, if any, must appoint a U.S. chief risk officer with experience in identifying, assessing, and managing risk exposures of large, complex financial firms.

(2) *Responsibilities*. (i) The U.S. chief risk officer is responsible for overseeing:

(A) The measurement, aggregation, and monitoring of risks undertaken by the combined U.S. operations;

(B) The implementation of and ongoing compliance with the policies and procedures for the foreign banking organization's combined U.S. operations set forth in paragraph (b)(1)(ii)(A) of this section and the development and implementation of processes and systems set forth in paragraph (b)(1)(ii)(B) of this section; and

(C) The management of risks and risk controls within the parameters of the risk-control framework for the combined U.S. operations, and the monitoring and testing of such risk controls.

(ii) The U.S. chief risk officer is responsible for reporting risks and risk-management deficiencies of the combined U.S. operations, and resolving such risk-management deficiencies in a timely manner.

(3) *Corporate governance and reporting.* The U.S. chief risk officer must:

(i) Receive compensation and other incentives consistent with providing an objective assessment of the risks taken by the combined U.S. operations of the foreign banking organization;

(ii) Be employed by and located in the U.S. branch, U.S. agency, U.S. intermediate holding company, if any, or another U.S. subsidiary;

(iii) Report directly to the U.S. risk committee and the global chief risk officer or equivalent management official (or officials) of the foreign banking organization who is responsible for overseeing, on an enterprise-wide basis, the implementation of and compliance with policies and procedures relating to risk-management governance, practices, and risk controls of the foreign banking organization, unless the Board approves an alternative reporting structure based on circumstances specific to the foreign banking organization;

(iv) Regularly provide information to the U.S. risk committee, global chief risk officer, and the Board regarding the nature of and changes to material risks undertaken by the foreign banking organization's combined U.S. operations, including risk-management deficiencies and emerging risks, and how such risks relate to the global operations of the foreign banking organization; and

(v) Meet regularly and as needed with the Board to assess compliance with the requirements of this section.

(d) *Responsibilities of the foreign banking organization.* The foreign banking organization must take appropriate measures to ensure that its combined U.S. operations implement the risk management policies overseen by the U.S. risk committee described in paragraphs (a) or (b) of this section, and its combined U.S. operations provide sufficient information to the U.S. risk committee to enable the U.S. risk committee to carry out the responsibilities of this subpart.

(e) *Noncompliance with this section.* If a foreign banking organization does not satisfy the requirements of this section, the Board may impose requirements, conditions, or restrictions relating to the activities or business operations of the combined U.S. operations of the foreign banking organization. The Board will coordinate with any relevant State or Federal regulator in the implementation of such requirements, conditions, or restrictions. If the Board determines to impose one or more requirements, conditions, or restrictions under this paragraph, the Board will notify the organization before it applies any requirement, condition, or restriction, and describe the basis for imposing such requirement, condition, or restriction. Within 14 calendar days of receipt of a notification under this paragraph, the organization may request in writing that the Board reconsider the requirement, condition, or restriction. The Board will respond in writing to the organization's request for reconsideration prior to applying the requirement, condition, or restriction.

[] Section 252.145 is retitled.

§252.145 Liquidity risk-management requirements for foreign banking organizations with total consolidated assets of \$250 billion or more but combined U.S. assets of less than \$100 billion.

[] Section 252.145(a) is revised to read as follows:

(a) A foreign banking organization with total consolidated assets of \$250 billion or more and combined U.S. assets of less than \$100 billion must report to the Board on an annual basis the results of an internal liquidity stress test for either the consolidated operations of the foreign banking organization or the combined U.S. operations of the foreign banking organization. Such liquidity stress test must be conducted consistently with the Basel Committee principles for liquidity risk management and must incorporate 30-day, 90-day, and one-year stress-test horizons. The “Basel Committee principles for liquidity risk management” means the document titled “Principles for Sound Liquidity Risk Management and Supervision” (September 2008) as published by the Basel Committee on Banking Supervision, as supplemented and revised from time to time.

* * * * *

[] Section 252.146 title heading is revised as follows:

§252.146 Capital stress testing requirements for foreign banking organizations with total consolidated assets of \$100 billion or more but combined U.S. assets of less than \$100 billion.

[] Section 252.146 paragraphs (b)(1), (b)(2)(i), (c)(1)(ii), and (c)(1)(iii) are revised to read as follows:

* * * * *

(b) *In general.* (1) A foreign banking organization with total consolidated assets of more than \$100 billion and combined U.S. assets of less than \$100 billion must:

(i) * * *

(ii) * * *

(2) * * *

(i) A supervisory capital stress test conducted by the foreign banking organization's home-country supervisor or an evaluation and review by the foreign banking organization's home-country supervisor of an internal capital adequacy stress test conducted by the foreign banking organization, according to the frequency specified in paragraph (b)(2)(i)(A)-(B):

(A) If the foreign banking organization has total consolidated assets of \$250 billion or more, on at least an annual basis; or

(B) If the foreign banking organization has total consolidated assets of less than \$250 billion, at least biennially; and

(ii) * * *

(c) *Additional standards.*

(1) * * *

(i) * * *

(ii) Conduct a stress test of its U.S. subsidiaries to determine whether those subsidiaries have the capital necessary to absorb losses as a result of adverse economic conditions, according to the frequency specified in paragraph (c)(1)(ii)(A)-(B);

(A) If the foreign banking organization has total consolidated assets of \$250 billion or more, on at least an annual basis; or

(B) If the foreign banking organization has total consolidated assets of less than \$250 billion, at least biennially; and

(iii) Report a summary of the results of the stress test to the Board that includes a description of the types of risks included in the stress test, a description of the conditions or scenarios used in the stress test, a summary description of the methodologies used in the stress test, estimates of aggregate losses, pre-provision net revenue, total loan loss provisions, net income before taxes and pro forma regulatory capital ratios required to be computed by the home-country supervisor of the foreign banking organization and any other relevant capital ratios, and an explanation of the most significant causes for any changes in regulatory capital ratios.

* * * * *

[] Add section 252.147.

§252.147 U.S. intermediate holding company requirement for foreign banking organizations with combined U.S. assets of less than \$100 billion but U.S. non-branch assets of \$50 billion or more.

(a) *Requirement to form a U.S. intermediate holding company.* (1) A foreign banking organization with U.S. non-branch assets of \$50 billion or more must establish a U.S. intermediate holding company, or designate an existing subsidiary that meets the requirements of paragraph (a)(2) of this section, as its U.S. intermediate holding company.

(2) The U.S. intermediate holding company must be:

(i) Organized under the laws of the United States, any one of the fifty states of the United States, or the District of Columbia; and

(ii) Be governed by a board of directors or managers that is elected or appointed by the owners and that operates in an equivalent manner, and has equivalent rights, powers, privileges, duties, and responsibilities, to a board of directors of a company chartered as a corporation under the laws of the United States, any one of the fifty states of the United States, or the District of Columbia.

(3) *Notice.* Within 30 days of establishing or designating a U.S. intermediate holding company under this section, a foreign banking organization must provide to the Board:

(i) A description of the U.S. intermediate holding company, including its name, location, corporate form, and organizational structure;

(ii) A certification that the U.S. intermediate holding company meets the requirements of this section; and

(iii) Any other information that the Board determines is appropriate.

(b) *Holdings and regulation of the U.S. intermediate holding company—(1) General.* Subject to paragraph (c) of this section, a foreign banking organization that is required to form a U.S. intermediate holding company under paragraph (a) of this section must hold its entire ownership interest in any U.S. subsidiary (excluding each section 2(h)(2) company or DPC branch subsidiary, if any) through its U.S. intermediate holding company.

(2) *Reporting.* Each U.S. intermediate holding company shall submit information in the manner and form prescribed by the Board.

(3) *Examinations and inspections.* The Board may examine or inspect any U.S. intermediate holding company and each of its subsidiaries and prepare a report of their operations and activities.

(4) For purposes of this part, a top-tier foreign banking organization with U.S. non-branch assets that equal or exceed \$50 billion is a global systemically important foreign banking organization if any of the following conditions are met:

(i) The top-tier foreign banking organization determines, pursuant to paragraph (b)(6) of this section, that the top-tier foreign banking organization has the characteristics of a global systemically important banking organization under the global methodology; or

(ii) The Board, using information available to the Board, determines:

(A) That the top-tier foreign banking organization would be a global systemically important banking organization under the global methodology;

(B) That the top-tier foreign banking organization, if it were subject to the Board's Regulation Q, would be identified as a global systemically important BHC under 12 CFR 217.402 of the Board's Regulation Q; or

(C) That the U.S. intermediate holding company, if it were subject to 12 CFR 217.402 of the Board's Regulation Q, would be identified as a global systemically important BHC.

(5) Each top-tier foreign banking organization that controls a U.S. intermediate holding company shall submit to the Board by January 1 of each calendar year through the U.S. intermediate holding company:

(i) Notice of whether the home-country supervisor (or other appropriate home country regulatory authority) of the top-tier foreign banking organization of the U.S. intermediate holding company has adopted standards consistent with the global methodology; and

(ii) Notice of whether the top-tier foreign banking organization prepares or reports the indicators used by the global methodology to identify a banking organization as a global systemically important banking organization and, if it does, whether the top-tier foreign banking

organization has determined that it has the characteristics of a global systemically important banking organization under the global methodology pursuant to paragraph (b)(6) of this section.

(6) A top-tier foreign banking organization that controls a U.S. intermediate holding company and prepares or reports for any purpose the indicator amounts necessary to determine whether the top-tier foreign banking organization is a global systemically important banking organization under the global methodology must use the data to determine whether the top-tier foreign banking organization has the characteristics of a global systemically important banking organization under the global methodology.

(c) *Alternative organizational structure*—(1) *General*. Upon a written request by a foreign banking organization, the Board may permit the foreign banking organization to establish or designate multiple U.S. intermediate holding companies; use an alternative organizational structure to hold its combined U.S. operations; or not transfer its ownership interests in certain subsidiaries to a U.S. intermediate holding company.

(2) *Factors*. In making a determination under paragraph (c)(1) of this section, the Board may consider whether applicable law would prohibit the foreign banking organization from owning or controlling one or more of its U.S. subsidiaries through a single U.S. intermediate holding company, or whether circumstances otherwise warrant an exception based on the foreign banking organization's activities, scope of operations, structure, or similar considerations.

(3) *Request*. (i) *Contents*. A request submitted under this section must include an explanation of why the request should be granted and any other information required by the Board.

(ii) *Timing.* The Board shall act on a request for an alternative organizational structure within 90 days of receipt of a complete request, unless the Board provides notice to the company that it is extending the period for action.

(4) *Conditions.* The Board may grant relief under this section upon such conditions as the Board deems appropriate, including, but not limited to, requiring the U.S. operations of the foreign banking organization to comply with additional enhanced prudential standards, or requiring the foreign banking organization to enter into supervisory agreements governing such alternative organizational structure.

(d) The Board may modify the application of any section of this subpart to a foreign banking organization that is required to form a U.S. intermediate holding company or to such U.S. intermediate holding company if appropriate to accommodate the organizational structure of the foreign banking organization or characteristics specific to such foreign banking organization and such modification is appropriate and consistent with the capital structure, size, complexity, risk profile, scope of operations, or financial condition of each U.S. intermediate holding company, safety and soundness, and the financial stability mandate of section 165 of the Dodd-Frank Act.

(e) *Enhanced prudential standards for U.S. intermediate holding companies—(1) Capital requirements for a U.S. intermediate holding company—(i) Risk-based capital and leverage requirements.*

(A) A U.S. intermediate holding company must comply with 12 CFR part 217, other than subpart E of 12 CFR part 217, in the same manner as a bank holding company.

(B) A U.S. intermediate holding company may choose to comply with subpart E of 12 CFR part 217.

(ii) A U.S. intermediate holding company must comply with capital adequacy standards beginning on the date it is required to be established under this subpart, or if the U.S. intermediate holding company is subject to capital adequacy standards on the date that the foreign banking organization becomes subject to section 252.142(a)(3), on the date that the foreign banking organization becomes subject to this subpart.

(2) *Risk-management and risk committee requirements*—(i) *General*. A U.S. intermediate holding company must establish and maintain a risk committee that approves and periodically reviews the risk management policies and oversees the risk-management framework of the U.S. intermediate holding company. The risk committee must be a committee of the board of directors of the U.S. intermediate holding company (or equivalent thereof). The risk committee may also serve as the U.S. risk committee for the combined U.S. operations required pursuant to §252.144(b).

(ii) *Risk-management framework*. The U.S. intermediate holding company's risk-management framework must be commensurate with the structure, risk profile, complexity, activities, and size of the U.S. intermediate holding company and consistent with the risk management policies for the combined U.S. operations of the foreign banking organization. The framework must include:

(A) Policies and procedures establishing risk-management governance, risk-management procedures, and risk-control infrastructure for the U.S. intermediate holding company; and

(B) Processes and systems for implementing and monitoring compliance with such policies and procedures, including:

(1) Processes and systems for identifying and reporting risks and risk-management deficiencies at the U.S. intermediate holding company, including regarding emerging risks and

ensuring effective and timely implementation of actions to address emerging risks and risk-management deficiencies;

(2) Processes and systems for establishing managerial and employee responsibility for risk management of the U.S. intermediate holding company;

(3) Processes and systems for ensuring the independence of the risk-management function of the U.S. intermediate holding company; and

(4) Processes and systems to integrate risk management and associated controls with management goals and the compensation structure of the U.S. intermediate holding company.

(iii) *Corporate governance requirements.* The risk committee of the U.S. intermediate holding company must meet at least quarterly and otherwise as needed, and must fully document and maintain records of its proceedings, including risk-management decisions.

(iv) *Minimum member requirements.* The risk committee must:

(A) Include at least one member having experience in identifying, assessing, and managing risk exposures of large, complex financial firms; and

(B) Have at least one member who:

(1) Is not an officer or employee of the foreign banking organization or its affiliates and has not been an officer or employee of the foreign banking organization or its affiliates during the previous three years; and

(2) Is not a member of the immediate family, as defined in §225.41(b)(3) of the Board's Regulation Y (12 CFR 225.41(b)(3)), of a person who is, or has been within the last three years, an executive officer, as defined in §215.2(e)(1) of the Board's Regulation O (12 CFR 215.2(e)(1)) of the foreign banking organization or its affiliates.

(v) The U.S. intermediate holding company must take appropriate measures to ensure that it implements the risk management policies for the U.S. intermediate holding company and it provides sufficient information to the U.S. risk committee to enable the U.S. risk committee to carry out the responsibilities of this subpart;

(vi) A U.S. intermediate holding company must comply with risk committee and risk management requirements beginning on the date that it is required to be established under this subpart or, if the U.S. intermediate holding company is subject to risk committee and risk management requirements on the date that the foreign banking organization becomes subject to section 252.147(a)(3), on the date that the foreign banking organization becomes subject to this subpart.

**Subpart O—Enhanced Prudential Standards for Foreign Banking Organizations
With Total Consolidated Assets of \$100 Billion or More and Combined U.S. Assets of \$100
Billion or More**

[] Section 252.150 heading and text are revised as follows:

§252.150 Scope. This subpart applies to foreign banking organizations with total consolidated assets of \$100 billion or more and combined U.S. assets of \$100 billion or more.

[] Section 252.152 is revised to read as follows:

§252.152 Applicability.

(a) *General applicability.* (1) A foreign banking organization must:

(i) Comply with the requirements of this subpart (other than the U.S. intermediate holding company requirement set forth in §252.153) beginning on the first day of the ninth quarter following the date on which its combined U.S. assets equal or exceed \$100 billion; and

(ii) Comply with the requirement to establish or designate a U.S. intermediate holding company requirement set forth in §252.153 beginning on the first day of the ninth quarter following the date on which its U.S. non-branch assets equal or exceed \$50 billion or, if the foreign banking organization has established or designated a U.S. intermediate holding company pursuant to §252.147, beginning on the first day following the date on which the foreign banking organization's combined U.S. assets equal or exceed \$100 billion.

(2) *Changes in requirements following a change in category.* A foreign banking organization that changes from one category of banking organization described in 252.5(c)-(e) to another of such categories must comply with the requirements applicable to the new category under this subpart no later than on the first day of the second quarter following the change in the foreign banking organization's category.

(b) *Asset measures*—(1) *Combined U.S. assets.* Combined U.S. assets of a foreign banking organization are equal to the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization (excluding any section 2(h)(2) company, if applicable) and the total assets of each U.S. branch and U.S. agency of the foreign banking organization. For purposes of this subpart, “combined U.S. assets” are calculated as the average of the total combined assets of U.S. operations for the four most recent consecutive quarters as reported by the foreign banking organization on the FR Y-7Q, or, if the foreign banking organization has not reported this information on the FR Y-7Q for each of the four most recent

consecutive quarters, the average of the combined U.S. assets for the most recent quarter or consecutive quarters as reported on the FR Y-7Q. Combined U.S. assets are measured on the as-of date of the most recent FR Y-7Q used in the calculation of the average.

(2) *U.S. non-branch assets.* U.S. non-branch assets are equal to the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization (excluding any section 2(h)(2) company and DPC branch subsidiary, if applicable).

(i) For purposes of this subpart, U.S. non-branch assets of a foreign banking organization are calculated as the average of the sum of the total consolidated assets of the top-tier U.S. subsidiaries of the foreign banking organization (excluding any section 2(h)(2) company and DPC branch subsidiary) for the four most recent consecutive quarters, as reported to the Board on the FR Y-7Q, or, if the foreign banking organization has not reported this information on the FR Y-7Q for each of the four most recent consecutive quarters, the average for the most recent quarter or consecutive quarters as reported on the FR Y-7Q.

(ii) In calculating U.S. non-branch assets, a foreign banking organization must reduce its U.S. non-branch assets calculated under this paragraph by the amount corresponding to balances and transactions between a top-tier U.S. subsidiary and any other top-tier U.S. subsidiary (excluding any 2(h)(2) company or DPC branch subsidiary) to the extent such items are not already eliminated in consolidation.

(iii) U.S. non-branch assets are measured on the as-of date of the most recent FR Y-7Q used in the calculation of the average.

(3) *Total consolidated assets.* (i) Total consolidated assets of a foreign banking organization are equal to the consolidated assets of the foreign banking organization. For

purposes of this subpart, “total consolidated assets” are calculated as the average of the foreign banking organization's total assets for the four most recent calendar quarters as reported by the foreign banking organization on the FR Y-7Q. If the foreign banking organization has not filed the FR Y-7Q for the four most recent calendar quarters, the Board shall use an average of the foreign banking organization's total consolidated assets reported on its most recent two FR Y-7Qs. Total consolidated assets are measured on the as-of date of the most recent FR Y-7Q used in the calculation of the average.

(ii) Total consolidated assets of a U.S. intermediate holding company purposes of this subpart are equal to its consolidated assets, calculated based on the average of the holding company's total consolidated assets in the four most recent quarters as reported quarterly on the FR Y-9C. If the holding company has not filed the FR Y-9C for each of the four most recent calendar quarters, total consolidated assets means the average of its total consolidated assets, as reported on the FR Y-9C, for the most recent quarter or quarters, as applicable. Total consolidated assets are measured on the as-of date of the most recent FR Y-9C used in the calculation of the average.to its total consolidated assets, as reported on the FR Y-9C;

(c) *Cessation of requirements*—(1) *Enhanced prudential standards applicable to the foreign banking organization*. Subject to paragraph (c)(2) of this section, a foreign banking organization will remain subject to the applicable requirements of this subpart until its reported combined U.S. assets on the FR Y-7Q are below \$100 billion for each of four consecutive calendar quarters.

(2) *Intermediate holding company requirement*. A foreign banking organization will remain subject to the U.S. intermediate holding company requirement set forth in §252.153 until

the sum of the total consolidated assets of the top-tier U.S. subsidiaries of the foreign banking organization (excluding any section 2(h)(2) company and DPC branch subsidiary) is below \$50 billion for each of four consecutive calendar quarters, or until the foreign banking organization is subject to subpart N of this part and is in compliance with the U.S. intermediate holding company requirements as set forth in §252.147.

[] Section 252.153 paragraphs (a)(1), (a)(3), (c)(1), (c)(2), (c)(3), (d), and (e) are revised as follows:

§252.153 U.S. intermediate holding company requirement for foreign banking organizations with U.S. non-branch assets of \$50 billion or more.

(a) *Requirement to form a U.S. intermediate holding company.* (1) A foreign banking organization with U.S. non-branch assets of \$50 billion or more must establish a U.S. intermediate holding company, or designate an existing subsidiary that meets the requirements of paragraph (a)(2) of this section, as its U.S. intermediate holding company.

(2) * * *

(3) *Notice.* Within 30 days of establishing or designating a U.S. intermediate holding company under this section, a foreign banking organization must provide to the Board:

(i) A description of the U.S. intermediate holding company, including its name, location, corporate form, and organizational structure;

(ii) A certification that the U.S. intermediate holding company meets the requirements of this section; and

(iii) Any other information that the Board determines is appropriate.

* * * * *

(c) *Alternative organizational structure*—(1) *General*. Upon a written request by a foreign banking organization, the Board may permit the foreign banking organization to establish or designate multiple U.S. intermediate holding companies; use an alternative organizational structure to hold its combined U.S. operations; or not transfer its ownership interests in certain subsidiaries to a U.S. intermediate holding company.

(2) *Factors*. In making a determination under paragraph (c)(1) of this section, the Board may consider whether applicable law would prohibit the foreign banking organization from owning or controlling one or more of its U.S. subsidiaries through a single U.S. intermediate holding company, or whether circumstances otherwise warrant an exception based on the foreign banking organization's activities, scope of operations, structure, or similar considerations.

(3) *Request*. (i) *Contents*. A request submitted under this section must include an explanation of why the request should be granted and any other information required by the Board.

(ii) *Timing*. The Board shall act on a request for an alternative organizational structure within 90 days of receipt of a complete request, unless the Board provides notice to the company that it is extending the period for action.

(4) *Conditions*. (i) The Board may grant relief under this section upon such conditions as the Board deems appropriate, including, but not limited to, requiring the U.S. operations of the foreign banking organization to comply with additional enhanced prudential standards, or requiring the foreign banking organization to enter into supervisory agreements governing such alternative organizational structure.

(ii) If the Board permits a foreign banking organization to form two or more U.S. intermediate holding companies under this section, each U.S. intermediate holding company

must determine its category pursuant to section 252.5 of this part as though the U.S. intermediate holding companies were a consolidated company.

(d) The Board may modify the application of any section of this subpart to a foreign banking organization that is required to form a U.S. intermediate holding company or to such U.S. intermediate holding company if appropriate to accommodate the organizational structure of the foreign banking organization or characteristics specific to such foreign banking organization and such modification is appropriate and consistent with the capital structure, size, complexity, risk profile, scope of operations, or financial condition of each U.S. intermediate holding company, safety and soundness, and the financial stability mandate of section 165 of the Dodd-Frank Act.

(e) Enhanced prudential standards for U.S. intermediate holding companies—(1) Capital requirements for a U.S. intermediate holding company—(i) Risk-based capital and leverage requirements.

(A) A U.S. intermediate holding company must comply with 12 CFR part 217, other than subpart E of 12 CFR part 217, in the same manner as a bank holding company.

(B) A U.S. intermediate holding company may choose to comply with subpart E of 12 CFR part 217.

(ii) A U.S. intermediate holding company must comply with capital adequacy standards beginning on the date that it is required to be established under this subpart or, if the U.S. intermediate holding company is subject to capital adequacy standards on the date that the foreign banking organization becomes subject to section 252.153(a)(1)(ii), on the date that the foreign banking organization becomes subject to this subpart.

(2) *Capital planning.* (i) A U.S. intermediate holding company with total consolidated assets of \$100 billion or more must comply with 12 CFR 225.8 in the same manner as a bank holding company.

(ii) A U.S. intermediate holding company with total consolidated assets of \$100 billion or more must comply with 12 CFR 225.8 in accordance with the transition provisions of 12 CFR 225.8 of Regulation Y.

(3) *Risk-management and risk committee requirements—(i) General.* A U.S. intermediate holding company must establish and maintain a risk committee that approves and periodically reviews the risk management policies and oversees the risk-management framework of the U.S. intermediate holding company. The risk committee must be a committee of the board of directors of the U.S. intermediate holding company (or equivalent thereof). The risk committee may also serve as the U.S. risk committee for the combined U.S. operations required pursuant to §252.155(a).

(ii) *Risk-management framework.* The U.S. intermediate holding company's risk-management framework must be commensurate with the structure, risk profile, complexity, activities, and size of the U.S. intermediate holding company and consistent with the risk management policies for the combined U.S. operations of the foreign banking organization. The framework must include:

(A) Policies and procedures establishing risk-management governance, risk-management procedures, and risk-control infrastructure for the U.S. intermediate holding company; and

(B) Processes and systems for implementing and monitoring compliance with such policies and procedures, including:

(1) Processes and systems for identifying and reporting risks and risk-management deficiencies at the U.S. intermediate holding company, including regarding emerging risks and ensuring effective and timely implementation of actions to address emerging risks and risk-management deficiencies;

(2) Processes and systems for establishing managerial and employee responsibility for risk management of the U.S. intermediate holding company;

(3) Processes and systems for ensuring the independence of the risk-management function of the U.S. intermediate holding company; and

(4) Processes and systems to integrate risk management and associated controls with management goals and the compensation structure of the U.S. intermediate holding company.

(iii) *Corporate governance requirements.* The risk committee of the U.S. intermediate holding company must meet at least quarterly and otherwise as needed, and must fully document and maintain records of its proceedings, including risk-management decisions.

(iv) *Minimum member requirements.* The risk committee must:

(A) Include at least one member having experience in identifying, assessing, and managing risk exposures of large, complex financial firms; and

(B) Have at least one member who:

(1) Is not an officer or employee of the foreign banking organization or its affiliates and has not been an officer or employee of the foreign banking organization or its affiliates during the previous three years; and

(2) Is not a member of the immediate family, as defined in §225.41(b)(3) of the Board's Regulation Y (12 CFR 225.41(b)(3)), of a person who is, or has been within the last three years,

an executive officer, as defined in §215.2(e)(1) of the Board's Regulation O (12 CFR 215.2(e)(1)) of the foreign banking organization or its affiliates.

(v) The U.S. intermediate holding company must take appropriate measures to ensure that it implements the risk management policies for the U.S. intermediate holding company and it provides sufficient information to the U.S. risk committee to enable the U.S. risk committee to carry out the responsibilities of this subpart.

(vi) A U.S. intermediate holding company must comply with risk committee and risk management requirements beginning on the date that it is required to be established under this subpart or, if the U.S. intermediate holding company is subject to risk committee and risk management requirements on the date that the foreign banking organization becomes subject to §252.153(a)(1)(ii), on the date that the foreign banking organization becomes subject to this subpart.

(4) *Liquidity requirements.* (i) A U.S. intermediate holding company must comply with the liquidity risk-management requirements in §252.156 and conduct liquidity stress tests and hold a liquidity buffer pursuant to §252.157.

(ii) A U.S. intermediate holding company must comply with liquidity risk-management, liquidity stress test, and liquidity buffer requirements beginning on the date that it is required to be established under this subpart.

(5) *Stress test requirements.* (i)(A) A U.S. intermediate holding company with total consolidated assets of \$100 billion or more must comply with the requirements of subpart E of this part in the same manner as a bank holding company;

(B) A U.S. intermediate holding company must comply with the requirements of subpart E beginning the later of:

(1) The stress test cycle of the calendar year after the calendar year in which it becomes subject to regulatory capital requirements; or

(2) In accordance with the transition provisions of subpart E.

(ii)(A) A Category II U.S. intermediate holding company and a Category III U.S. intermediate holding company must comply with the requirements of subpart F of this part in the same manner as a bank holding company;

(B) A U.S. intermediate holding company must comply with the requirements of subpart F beginning the later of:

(1) The stress test cycle of the calendar year after the calendar year in which it becomes subject to regulatory capital requirements; or

(2) In accordance with the transition provisions of subpart F.

§252.154 Risk-based and leverage capital requirements for foreign banking organizations with combined U.S. assets of \$100 billion or more.

[] Section 252.154 section heading is revised as set forth above.

[] Section 252.154 paragraphs (a)(1), (b)(2), (c) are revised as follows:

(a) *General requirements.* (1) A foreign banking organization with combined U.S. assets of \$100 billion or more must certify to the Board that it meets capital adequacy standards on a consolidated basis established by its home-country supervisor that are consistent with the regulatory capital framework published by the Basel Committee on Banking Supervision, as amended from time to time (Basel Capital Framework).

(i) * * *

(ii) [Reserved]

(2) * * *

(b) *Reporting.* A foreign banking organization with combined U.S. assets of \$100 billion or more must provide to the Board reports relating to its compliance with the capital adequacy measures described in paragraph (a) of this section concurrently with filing the FR Y-7Q.

(c) *Noncompliance with the Basel Capital Framework.* If a foreign banking organization does not satisfy the requirements of this section, the Board may impose requirements, conditions, or restrictions relating to the activities or business operations of the U.S. operations of the foreign banking organization. The Board will coordinate with any relevant State or Federal regulator in the implementation of such requirements, conditions, or restrictions. If the Board determines to impose one or more requirements, conditions, or restrictions under this paragraph, the Board will notify the organization before it applies any requirement, condition or restriction, and describe the basis for imposing such requirement, condition, or restriction. Within 14 calendar days of receipt of a notification under this paragraph, the company may request in writing that the Board reconsider the requirement, condition, or restriction. The Board will respond in writing to the organizations request for reconsideration prior to applying the requirement, condition, or restriction.

§252.155 Risk-management and risk-committee requirements for foreign banking organizations with combined U.S. assets of \$100 billion or more.

[] Section 252.155 section heading is revised as set forth above.

[] Section 252.155 paragraphs (a)(1), (a)(3), and (b)(3) are revised as follows:

(a) *U.S. risk committee*—(1) *General*. Each foreign banking organization with combined U.S. assets of \$100 billion or more must maintain a U.S. risk committee that approves and periodically reviews the risk management policies of the combined U.S. operations of the foreign banking organization and oversees the risk-management framework of such combined U.S. operations. The U.S. risk committee's responsibilities include the liquidity risk-management responsibilities set forth in §252.156(a).

(2) * * *

(3) *Placement of the U.S. risk committee*. (i) A foreign banking organization that conducts its operations in the United States solely through a U.S. intermediate holding company must maintain its U.S. risk committee as a committee of the board of directors of its U.S. intermediate holding company (or equivalent thereof).

(ii) A foreign banking organization that conducts its operations through U.S. branches or U.S. agencies (in addition to through its U.S. intermediate holding company, if any) may maintain its U.S. risk committee either:

(A) As a committee of the global board of directors (or equivalent thereof), on a standalone basis or as a joint committee with its enterprise-wide risk committee (or equivalent thereof); or

(B) As a committee of the board of directors of its U.S. intermediate holding company (or equivalent thereof), on a standalone basis or as a joint committee with the risk committee of its U.S. intermediate holding company required pursuant to §252.153(e)(3).

(4) * * *

(5) * * *

(b) *U.S. chief risk officer*—(1) *General*. A foreign banking organization with combined U.S. assets of \$100 billion or more or its U.S. intermediate holding company, if any, must appoint a U.S. chief risk officer with experience in identifying, assessing, and managing risk exposures of large, complex financial firms.

(2) * * *

(3) * * *

(4) * * *

* * * * *

§252.156 Liquidity risk-management requirements for foreign banking organizations with combined U.S. assets of \$100 billion or more.

[] Section 252.156 section heading is revised as set forth above.

[] Section 252.156 paragraphs (a)(1), (b)(1), (b)(2), (b)(3)(i), (b)(4), (b)(5), (b)(6), (c)(1), (d)(1), (e)(1), (e)(2)(i)(A), (e)(2)(i)(C), (e)(2)(ii)(A), (f), and (g)(1) are revised as follows:

(a) *Responsibilities of the U.S. risk committee*. (1) The U.S. risk committee established by a foreign banking organization pursuant to §252.155(a) (or a designated subcommittee of such committee composed of members of the board of directors (or equivalent thereof)) of the U.S. intermediate holding company or the foreign banking organization, as appropriate must:

* * * * *

(b) *Responsibilities of the U.S. chief risk officer*—(1) *Liquidity risk*. The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$100 billion or more must review the strategies and policies and procedures established by senior management of the U.S.

operations for managing the risk that the financial condition or safety and soundness of the foreign banking organization's combined U.S. operations would be adversely affected by its inability or the market's perception of its inability to meet its cash and collateral obligations (liquidity risk).

(2) *Liquidity risk tolerance.* The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$100 billion or more must review information provided by the senior management of the U.S. operations to determine whether the combined U.S. operations are operating in accordance with the established liquidity risk tolerance. The U.S. chief risk officer must regularly, and, at least semi-annually, report to the foreign banking organization's U.S. risk committee and enterprise-wide risk committee, or the equivalent thereof (if any) (or a designated subcommittee of such committee composed of members of the relevant board of directors (or equivalent thereof)) on the liquidity risk profile of the foreign banking organization's combined U.S. operations and whether it is operating in accordance with the established liquidity risk tolerance for the U.S. operations, and must establish procedures governing the content of such reports.

(3) *Business lines or products.* (i) The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$100 billion or more must approve new products and business lines and evaluate the liquidity costs, benefits, and risks of each new business line and each new product offered, managed or sold through the foreign banking organization's combined U.S. operations that could have a significant effect on the liquidity risk profile of the U.S. operations of the foreign banking organization. The approval is required before the foreign banking organization implements the business line or offers the product through its combined U.S. operations. In determining whether to approve the new business line or product, the U.S.

chief risk officer must consider whether the liquidity risk of the new business line or product (under both current and stressed conditions) is within the foreign banking organization's established liquidity risk tolerance for its combined U.S. operations.

(ii) * * *

(4) *Cash-flow projections.* The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$100 billion or more must review the cash-flow projections produced under paragraph (d) of this section at least quarterly (or more often, if changes in market conditions or the liquidity position, risk profile, or financial condition of the foreign banking organization or the U.S. operations warrant) to ensure that the liquidity risk of the foreign banking organization's combined U.S. operations is within the established liquidity risk tolerance.

(5) *Liquidity risk limits.* The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$100 billion or more must establish liquidity risk limits as set forth in paragraph (f) of this section and review the foreign banking organization's compliance with those limits at least quarterly (or more often, if changes in market conditions or the liquidity position, risk profile, or financial condition of the U.S. operations of the foreign banking organization warrant).

(6) *Liquidity stress testing.* The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$100 billion or more must:

(i) Approve the liquidity stress testing practices, methodologies, and assumptions required in §252.157(a) at least quarterly, and whenever the foreign banking organization materially revises its liquidity stress testing practices, methodologies or assumptions;

(ii) Review the liquidity stress testing results produced under §252.157(a) of this subpart at least quarterly; and

(iii) Approve the size and composition of the liquidity buffer established under §252.157(c) of this subpart at least quarterly.

(c) *Independent review function.* (1) A foreign banking organization with combined U.S. assets of \$100 billion or more must establish and maintain a review function that is independent of the management functions that execute funding for its combined U.S. operations to evaluate the liquidity risk management for its combined U.S. operations.

(2) * * *

(ii) Assess whether the foreign banking organization's liquidity risk management function of its combined U.S. operations complies with applicable laws and regulations, and sound business practices; and

* * * * *

(d) *Cash-flow projections.* (1) A foreign banking organization with combined U.S. assets of \$100 billion or more must produce comprehensive cash-flow projections for its combined U.S. operations that project cash flows arising from assets, liabilities, and off-balance sheet exposures over, at a minimum, short- and long-term time horizons. The foreign banking organization must update short-term cash-flow projections daily and must update longer-term cash-flow projections at least monthly.

* * * * *

(e) *Contingency funding plan.* (1) A foreign banking organization with combined U.S. assets of \$100 billion or more must establish and maintain a contingency funding plan for its

combined U.S. operations that sets out the foreign banking organization's strategies for addressing liquidity needs during liquidity stress events. The contingency funding plan must be commensurate with the capital structure, risk profile, complexity, activities, size, and the established liquidity risk tolerance for the combined U.S. operations. The foreign banking organization must update the contingency funding plan for its combined U.S. operations at least annually, and when changes to market and idiosyncratic conditions warrant.

(2) *Components of the contingency funding plan*—(i) *Quantitative assessment.* * *

*

(A) Identify liquidity stress events that could have a significant impact on the liquidity of the foreign banking organization or its combined U.S. operations;

(B) * * *

(C) Identify the circumstances in which the foreign banking organization would implement its action plan described in paragraph (e)(2)(ii)(A) of this section, which circumstances must include failure to meet any minimum liquidity requirement imposed by the Board on the foreign banking organization's combined U.S. operations;

(D) * * *

(E) * * *

(F) * * *

(ii) *Liquidity event management process.* * * *

(A) Include an action plan that clearly describes the strategies that the foreign banking organization will use to respond to liquidity shortfalls in its combined U.S. operations for identified liquidity stress events, including the methods that the organization or the combined U.S. operations will use to access alternative funding sources;

* * * * *

(f) *Liquidity risk limits*—(1) *General*. A Category II foreign banking organization or Category III foreign banking organization must monitor sources of liquidity risk and establish limits on liquidity risk, including limits on:

(A) Concentrations in sources of funding by instrument type, single counterparty, counterparty type, secured and unsecured funding, and as applicable, other forms of liquidity risk;

(B) The amount of liabilities that mature within various time horizons; and

(C) Off-balance sheet exposures and other exposures that could create funding needs during liquidity stress events.

(ii) Each limit established pursuant to paragraph (g)(1) of this section must be consistent with the company's established liquidity risk tolerance and must reflect the organization's capital structure, risk profile, complexity, activities, and size.

(2) *Liquidity risk limits for Category IV foreign banking organizations*. A Category IV foreign banking organization must monitor sources of liquidity risk and establish limits on liquidity risk that are consistent with the organization's established liquidity risk tolerance and that reflect the organization's capital structure, risk profile, complexity, activities, and size.

(g) *Collateral, legal entity, and intraday liquidity risk monitoring*. A foreign banking organization with combined U.S. assets of \$100 billion or more must establish and maintain procedures for monitoring liquidity risk as set forth in this paragraph.

(1) *Collateral*. The foreign banking organization must establish and maintain policies and procedures to monitor assets that have been or are available to be pledged as collateral in

connection with transactions to which entities in its U.S. operations are counterparties. These policies and procedures must provide that the foreign banking organization:

(i) Calculates all of the collateral positions for its combined U.S. operations according to the frequency specified in paragraph (g)(1)(i)(A)-(B) or as directed by the Board, specifying the value of pledged assets relative to the amount of security required under the relevant contracts and the value of unencumbered assets available to be pledged:

(A) If the foreign banking organization is not a Category IV foreign banking organization, on a weekly basis; or

(B) If the foreign banking organization is a Category IV foreign banking organization, on a monthly basis;

(ii) * * *

(iii) * * *

(iv) * * *

(2) * * *

(3) *Intraday exposure*. The foreign banking organization must establish and maintain procedures for monitoring intraday liquidity risk exposure for its combined U.S. operations that are consistent with the capital structure, risk profile, complexity, activities, and size of the foreign banking organization and its combined U.S. operations. If the foreign banking organization is a Category II foreign banking organization or a Category III foreign banking organization these procedures must address how the management of the combined U.S. operations will:

(i) Monitor and measure expected gross daily inflows and outflows;

(ii) Manage and transfer collateral to obtain intraday credit;

(iii) * * *

(iv) Manage the issuance of credit to customers where necessary; and

(v) * * *

§252.157 Liquidity stress testing and buffer requirements for foreign banking organizations with combined U.S. assets of \$100 billion or more.

[] In section 252.157, revise section heading as set forth above:

[] Section 252.157 paragraphs (a)(1)(i), (a)(1)(ii), (a)(1)(iii), (a)(1)(iv), (a)(2), (a)(7), (c)(1) are revised, and to add paragraph (a)(8).

(a) *Liquidity stress testing requirement*—(1) General. (i) A foreign banking organization with combined U.S. assets of \$100 billion or more must conduct stress tests to separately assess the potential impact of liquidity stress scenarios on the cash flows, liquidity position, profitability, and solvency of:

(A) * * *

(B) * * *

(C) * * *

(ii) Each liquidity stress test required under this paragraph (a)(1) must use the stress scenarios described in paragraph (a)(3) of this section and take into account the current liquidity condition, risks, exposures, strategies, and activities of the combined U.S. operations.

(iii) The liquidity stress tests required under this paragraph (a)(1) must take into consideration the balance sheet exposures, off-balance sheet exposures, size, risk profile, complexity, business lines, organizational structure and other characteristics of the foreign banking organization and its combined U.S. operations that affect the liquidity risk profile of the combined U.S. operations.

(iv) In conducting a liquidity stress test using the scenarios described in paragraphs (a)(3)(i) and (iii) of this section, the foreign banking organization must address the potential direct adverse impact of associated market disruptions on the foreign banking organization's combined U.S. operations and the related indirect effect such impact could have on the combined U.S. operations of the foreign banking organization and incorporate the potential actions of other market participants experiencing liquidity stresses under the market disruptions that would adversely affect the foreign banking organization or its combined U.S. operations.

(2) *Frequency.* The foreign banking organization must perform the liquidity stress tests required under paragraph (a)(1) according to the frequency specified in paragraph (a)(2)(i)-(ii) or as directed by the Board:

(i) If the foreign banking organization is not a Category IV foreign banking organization, at least monthly; or

(ii) If the foreign banking organization is a Category IV foreign banking organization, at least quarterly.

* * * * *

(7) *Governance—(i) Stress test function.* A foreign banking organization with combined U.S. assets of \$100 billion or more, within its combined U.S. operations and its enterprise-wide risk management, must establish and maintain policies and procedures governing its liquidity stress testing practices, methodologies, and assumptions that provide for the incorporation of the results of liquidity stress tests in future stress testing and for the enhancement of stress testing practices over time.

(ii) *Controls and oversight.* The foreign banking organization must establish and maintain a system of controls and oversight that is designed to ensure that its liquidity stress testing processes are effective in meeting the requirements of this section. The controls and oversight must ensure that each liquidity stress test appropriately incorporates conservative assumptions with respect to the stress scenario in paragraph (a)(3) of this section and other elements of the stress-test process, taking into consideration the capital structure, risk profile, complexity, activities, size, and other relevant factors of the combined U.S. operations. These assumptions must be approved by U.S. chief risk officer and subject to independent review consistent with the standards set out in §252.156(c).

(iii) * * *

(8) *Notice and Response.* (i) If the Board determines that a foreign banking organization must conduct liquidity stress tests according to a frequency other than the frequency provided in paragraph (a)(2)(i)-(ii) of this section, the Board will notify the foreign banking organization before the change in frequency takes effect, and describe the basis for its determination. Within 14 calendar days of receipt of a notification under this paragraph, the foreign banking organization may request in writing that the Board reconsider the requirement. The Board will respond in writing to the organization's request for reconsideration prior to requiring the foreign

banking organization to conduct liquidity stress tests according to a frequency other than the frequency provided in paragraph (a)(2)(i)-(ii) of this section.

(b) *Reporting of liquidity stress tests required by home-country regulators.* A foreign banking organization with combined U.S. assets of \$100 billion or more must make available to the Board, in a timely manner, the results of any liquidity internal stress tests and establishment of liquidity buffers required by regulators in its home jurisdiction. The report required under this paragraph must include the results of its liquidity stress test and liquidity buffer, if required by the laws or regulations implemented in the home jurisdiction, or expected under supervisory guidance.

(c) *Liquidity buffer requirement—(1) General.* A foreign banking organization with combined U.S. assets of \$100 billion or more must maintain a liquidity buffer for its U.S. intermediate holding company, if any, calculated in accordance with paragraph (c)(2) of this section, and a separate liquidity buffer for its U.S. branches and agencies, if any, calculated in accordance with paragraph (c)(3) of this section.

* * * * *

[] In section 252.158, revise section heading as follows:

§252.158 Capital stress testing requirements for foreign banking organizations with combined U.S. assets of \$100 billion or more.

[] Section 252.158 paragraphs (b)(1), (b)(2)(i), (c)(1), (c)(2) are revised as follows:

* * * * *

(b) *In general.* (1) A foreign banking organization with combined U.S. assets of \$100 billion or more and that has a U.S. branch or U.S. agency must:

(i) * * *

(ii) * * *

(iii) * * *

(2) The capital stress testing regime of a foreign banking organization's home-country supervisor must include:

(i) A supervisory capital stress test conducted by the foreign banking organization's home-country supervisor or an evaluation and review by the foreign banking organization's home-country supervisor of an internal capital adequacy stress test conducted by the foreign banking organization, according to the frequency specified in paragraph (b)(2)(A)-(B):

(A) If the foreign banking organization is not a Category IV foreign banking organization, on at least an annual basis; or

(B) If the foreign banking organization is a Category IV foreign banking organization, at least biennially; and

* * * * *

(c) *Information requirements*—(1) *In general*. A foreign banking organization with combined U.S. assets of \$100 billion or more must report to the Board by January 5 of each calendar year, unless such date is extended by the Board, summary information about its stress-testing activities and results, including the following quantitative and qualitative information:

(i) * * *

(ii) * * *

(iii) * * *

(iv) * * *

(A) * * *

(B) * * *

(C) * * *

(D) * * *

(E) * * *

(v) * * *

(2) *Additional information required for foreign banking organizations in a net due from position.* If, on a net basis, the U.S. branches and agencies of a foreign banking organization with combined U.S. assets of \$100 billion or more provide funding to the foreign banking organization's non-U.S. offices and non-U.S. affiliates, calculated as the average daily position over a stress test cycle for a given year, the foreign banking organization must report the following information to the Board by January 5 of each calendar year, unless such date is extended by the Board:

(i) * * *

(ii) * * *

(iii) * * *

* * * * *

Subpart Q—Single-Counterparty Credit Limits

[] Section 252.170 is revised as follows:

§ 252.170 Applicability and general provisions.

(a) *In general.* (1) This subpart establishes single counterparty credit limits for a covered foreign entity.

(2) For purposes of this subpart:

(i) *Covered foreign entity* means:

- (A) A Category II foreign banking organization;
- (B) A Category III foreign banking organization;
- (C) A foreign banking organization with total consolidated assets that equal or exceed \$250 billion with respect to its combined U.S. operations; and
- (D) Any U.S. intermediate holding company of a Category II foreign banking organization or a Category III foreign banking organization.

(ii) *Major foreign banking organization* means a foreign banking organization that is a covered foreign entity and meets the requirements of § 252.172(c)(3) through (5).

(b) *Credit exposure limits.* (1) Section 252.172 establishes credit exposure limits for covered foreign entities and major foreign banking organizations.

(2) A covered foreign entity is required to calculate its aggregate net credit exposure, gross credit exposure, and net credit exposure to a counterparty using the methods in this subpart.

(c) *Applicability of this subpart—(1) Foreign banking organizations.* (i) A foreign banking organization that is a covered foreign entity as of October 5, 2018, must comply with the requirements of this subpart, including but not limited to § 252.172, beginning on July 1, 2020, unless that time is extended by the Board in writing.

(ii) Notwithstanding paragraph (c)(1)(i) of this section, a foreign banking organization that is a major foreign banking organization as of October 5, 2018, must comply with the requirements of this subpart, including but not limited to § 252.172, beginning on January 1, 2020, unless that time is extended by the Board in writing.

(iii) A foreign banking organization that becomes a covered foreign entity subject to this subpart after October 5, 2018 must comply with the requirements of this subpart beginning on

the first day of the ninth calendar quarter after it becomes a covered foreign entity, unless that time is accelerated or extended by the Board in writing.

(2) *U.S. intermediate holding companies.* (i) A U.S. intermediate holding company that is a covered foreign entity as of October 5, 2018 must comply with the requirements of this subpart, including but not limited to § 252.172, beginning on July 1, 2020, unless that time is extended by the Board in writing.

(ii) Reserved (iii) A U.S. intermediate holding company that becomes a covered foreign entity subject to this subpart after October 5, 2018 must comply with the requirements of this subpart beginning on the first day of the ninth calendar quarter after it becomes a covered foreign entity, unless that time is accelerated or extended by the Board in writing.

(d) *Cessation of requirements—(1) Foreign banking organizations.* (i) Any foreign banking organization that becomes a covered foreign entity will remain subject to the requirements of this subpart unless and until:

(A) The covered foreign entity is not a Category II foreign banking organization;

(B) The covered foreign entity is not a Category III foreign banking organization; and

(C) Its total consolidated assets fall below \$250 billion for each of four consecutive quarters, as reported on the covered foreign entity's FR Y-7Q, effective on the as-of date of the fourth consecutive FR Y-7Q.

(ii) A foreign banking organization that is a covered foreign entity and that has ceased to be a major foreign banking organization for purposes of § 252.172(c) is no longer subject to the requirements of § 252.172(c) beginning on the first day of the calendar quarter following the reporting date on which it ceased to be a major foreign banking organization; provided that the foreign banking organization remains subject to the requirements of this subpart, unless it ceases

to be a foreign banking organization that is a covered foreign entity pursuant to paragraph (d)(1)(i) of this section.

(2) *U.S. intermediate holding companies.* (i) Any U.S. intermediate holding company that becomes a covered foreign entity will remain subject to the requirements of this subpart unless and until:

(A) The covered foreign entity is not the subsidiary of a Category II foreign banking organization;

(B) The covered foreign entity is not the subsidiary of a Category III foreign banking organization; or

(C) The covered foreign entity's total consolidated assets fall below \$50 billion for each of four consecutive quarters, as reported on the covered foreign entity's FR Y-9C, effective on the as-of date of the fourth consecutive FR Y-9C.

[] section 252.170 is revised to amend the definition of counterparty and remove the definition of major U.S. intermediate holding company as follows:

§ 252.171 Definitions.

* * * * *

(f) *Counterparty* means with respect to a credit transaction:

(1) With respect to a natural person, the natural person, and, if the credit exposure of the covered foreign entity to such natural person exceeds 5 percent of its tier 1 capital, the natural person and members of the person's immediate family collectively;

* * * * *

(aa) Reserved

* * * * *

[] Section 252.172 is revised as follows:

§ 252.172 Credit exposure limits.

(a) Reserved

(b) *Limit on aggregate net credit exposure for covered foreign entities.* (1) No U.S. intermediate holding company that is a covered foreign entity may have an aggregate net credit exposure to any counterparty that exceeds 25 percent of the tier 1 capital of the U.S. intermediate holding company.

(2) No foreign banking organization that is a covered foreign entity may permit its combined U.S. operations to have aggregate net credit exposure to any counterparty that exceeds 25 percent of the tier 1 capital of the foreign banking organization.

(c) *Limit on aggregate net credit exposure of major foreign banking organizations to major counterparties.*

(1) Reserved

(2) No major foreign banking organization may permit its combined U.S. operations to have aggregate net credit exposure to any major counterparty that exceeds 15 percent of the tier 1 capital of the major foreign banking organization.

* * * * *

[] section 252.173(b) is revised as follows:

§ 252.173 Gross credit exposure.

* * * * *

(b) *Investments in and exposures to securitization vehicles, investment funds, and other special purpose vehicles that are not affiliates.* Notwithstanding paragraph (a) of this section,(1)

Reserved

(2) A covered foreign entity must calculate pursuant to § 252.175 its gross credit exposure due to any investment in the debt or equity of, and any credit derivative or equity derivative between the covered foreign entity and a third party where the covered foreign entity is the protection provider and the reference asset is an obligation or equity security of, or equity investment in, a securitization vehicle, investment fund, and other special purpose vehicle that is not an affiliate of the covered foreign entity.

* * * * *

[] Section 252.175(a)(1) is revised as follows:

§ 252.175 Investments in and exposures to securitization vehicles, investment funds, and other special purpose vehicles that are not affiliates of the covered foreign entity.

(a) *In general.* (1) [Reserved]

(2) For purposes of this section, the following definitions apply:

* * * * *

[] section 252.175(a)(1) is revised as follows:

§ 252.176 Aggregation of exposures to more than one counterparty due to economic interdependence or control relationships.

(a) *In general.* (1) [Reserved]

(2)(i) If a covered foreign entity has an aggregate net credit exposure to any counterparty that exceeds 5 percent of its tier 1 capital, the covered foreign entity must assess its relationship with the counterparty under paragraph (b)(2) of this section to determine whether the counterparty is economically interdependent with one or more other counterparties of the

covered foreign entity and under paragraph (c)(1) of this section to determine whether the counterparty is connected by a control relationship with one or more other counterparties.

* * * * *

[] Section 252.178(a)(1), (a)(2) (c)(2) are revised as follows:

§ 252.178 Compliance.

(a) *Scope of compliance.* (1) Using all available data, including any data required to be maintained or reported to the Federal Reserve under this subpart, a covered foreign entity must comply with the requirements of this subpart on a daily basis at the end of each business day.

(2) Reserved

(3) A covered foreign entity must report its compliance to the Federal Reserve as of the end of the quarter, unless the Board determines and notifies that entity in writing that more frequent reporting is required.

* * * * *

(c) *Noncompliance.* (1) * * *

(2) A covered foreign entity may request a special temporary credit exposure limit exemption from the Board. The Board may grant approval for such exemption in cases where the Board determines that such credit transactions are necessary or appropriate to preserve the safety and soundness of the covered foreign entity or U.S. financial stability. In acting on a request for an exemption, the Board will consider the following:

- (i) A decrease in the covered foreign entity's tier 1 capital;
- (ii) The merger of the covered foreign entity with another covered foreign entity;
- (iii) A merger of two counterparties; or

(iv) An unforeseen and abrupt change in the status of a counterparty as a result of which the covered foreign entity's credit exposure to the counterparty becomes limited by the requirements of this section; or

(v) Any other factor(s) the Board determines, in its discretion, is appropriate.

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