

FEDERAL RESERVE SYSTEM

12 CFR Part 217

Regulation Q; Docket No. R-XXX

RIN 7100 AE-XX

Risk-Based Capital Guidelines: Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) is inviting public comment on a framework to establish risk-based capital surcharges for the largest, most interconnected U.S.-based bank holding companies pursuant to section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The proposal is based upon the international standard adopted by the Basel Committee on Banking Supervision, modified to reflect systemic risk concerns specific to the funding structures of large U.S. bank holding companies.

The proposed framework would require a U.S. top-tier bank holding company with \$50 billion or more in total consolidated assets to calculate a measure of its systemic importance and would identify a subset of those companies as global systemically important bank holding companies based on that measure. A global systemically important bank holding company would be subject to a risk-based capital surcharge that would increase its capital conservation buffer under the Board's regulatory capital rule. The proposed framework would be phased in beginning on January 1, 2016 through year-end 2018, becoming fully effective on January 1, 2019. The proposal would also revise the

terminology used to identify the firms subject to the enhanced supplementary leverage ratio standards to ensure consistency of the scopes of application of both rulemakings.

DATES: Comments must be received no later than February 28, 2015.

ADDRESS: When submitting comments, please consider submitting your comments by email or fax because paper mail in the Washington, DC area and at the Board may be subject to delay. You may submit comments, identified by Docket No. R-[XXXX] and RIN 7100 AE-XX, by any of the following methods:

- *Agency Web Site:* www.federalreserve.gov. Follow the instructions for submitting comments at www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm.
- *Federal eRulemaking Portal:* www.regulations.gov. Follow the instructions for submitting comments.
- *E-mail:* regs.comments@federalreserve.gov. Include the docket number in the subject line of the message.
- *Fax:* (202) 452-3819 or (202) 452-3102.
- *Mail:* Address to Robert de V. Frierson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551.

All public comments will be made available on the Board's Web site at

www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, unless modified for technical reasons. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room MP- 500 of the Board's Martin Building (20th and C Streets, NW, Washington, DC 20551) between 9 a.m. and 5 p.m. on weekdays.

FOR FURTHER INFORMATION CONTACT:

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I. Introduction

A. Background

The 2007-2008 financial crisis demonstrated that certain U.S. financial companies had grown so large, leveraged, and interconnected that their failure could pose a threat to financial stability in the United States and globally. The sudden collapse and near-collapse of major financial companies were among the most destabilizing events of the crisis. As a result, significant public sector intervention was needed to reduce the impact of, or prevent, the failure of these companies and the attendant consequences for the broader financial

system. The crisis demonstrated that supervisors and other relevant authorities needed to take additional steps to prevent financial vulnerabilities from spreading among firms in a manner that could undermine national and global financial stability. In response, U.S. authorities have undertaken a comprehensive reform of financial regulation to enhance their ability to monitor and address threats to financial stability, strengthen the prudential oversight and resolvability of systemically important financial institutions, and improve the capacity of financial markets and infrastructures to absorb shocks.

Despite those efforts, a perception persists in the markets that some companies remain too big to fail, which poses a significant threat to the financial system. The perception of too big to fail reduces incentives of shareholders, creditors, and counterparties of these companies to discipline excessive risk-taking by these companies and produces competitive distortions because these companies can often fund themselves at a lower cost than other companies. This distortion is unfair to smaller companies, damages fair competition, and may artificially encourage further consolidation and concentration in the financial system.

The financial crisis also revealed dangers that can emerge as a result of firms' reliance on short-term wholesale funding. Short-term wholesale funding is used by a variety of financial firms, including commercial banks and broker-dealers, and can take many forms, including unsecured commercial paper, asset-backed commercial paper, wholesale certificates of deposits, and securities financing transactions. During normal times, short-term wholesale funding helps to satisfy investor demand for safe and liquid investments, lower funding costs for borrowers, and support the functioning of the financial markets.

During periods of stress, however, reliance on short-term wholesale funding can leave firms vulnerable to runs that undermine financial stability.

When short-term creditors lose confidence in a firm or believe other short-term creditors may lose confidence in that firm, those creditors have a strong incentive to withdraw funding quickly before withdrawals by other creditors drain the firm of its liquid assets. To meet its obligations, the borrowing firm may be required to rapidly sell less liquid assets, which it may be able to do only at fire sale prices that deplete the seller's capital and drive down asset prices across the market. In a post-default scenario, fire sale externalities could result if the defaulted firm's creditors seize and rapidly liquidate assets the defaulted firm has posted as collateral. Financial distress can spread among firms as a result of counterparty relationships or because of perceived similarities among firms, forcing firms to rapidly liquidate assets in a manner that places the financial system as a whole under significant strain.

B. Dodd-Frank Act

In the wake of the financial crisis, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in order to mitigate the risk to the financial stability of the United States that could arise from the material financial distress or failure of large, interconnected financial institutions.¹ Section 165 of the Dodd-Frank Act directs the Board to establish enhanced prudential standards for bank holding companies with

¹ Pub. L. 111–203, 124 Stat. 1376 (July 21, 2010).

\$50 billion or more in total consolidated assets and for nonbank financial companies the Financial Stability Oversight Council (Council) has designated for supervision by the Board (nonbank financial companies supervised by the Board).² The enhanced prudential standards include heightened risk-based capital requirements, leverage limits, liquidity requirements, single-counterparty credit limits, stress testing requirements, and risk management requirements.³ These standards must be more stringent than those standards applicable to other bank holding companies and to nonbank financial companies that do not present similar risks to U.S. financial stability.⁴ The standards must also increase in stringency based on several factors, including the size and risk characteristics of a company subject to the rule, and the Board must take into account the difference among bank holding companies and nonbank financial companies based on the same factors.⁵ Section 165 also permits the Board to establish other prudential standards in addition to the mandatory standards, including three enumerated standards—a contingent capital requirement, enhanced public disclosures, and short-term debt limits—and any “other prudential standards” that the Board determines are “appropriate.”

C. Overview of the Proposal

Pursuant to its authority to establish enhanced risk-based capital standards under section 165 of the Dodd-Frank Act, the Board is proposing to impose risk-based capital

² See 12 U.S.C. 5365.

³ Id.

⁴ See 12 U.S.C. 5365(a)(1)(A).

⁵ See 12 U.S.C. 5365(a)(1)(B). Under section 165(a)(1)(B) of the Dodd-Frank Act, the enhanced prudential standards must increase in stringency based on the considerations listed in section 165(b)(3).

surcharges (GSIB surcharges) upon U.S. bank holding companies that are identified as global systemically important banking organizations (GSIBs). First, the proposal would establish a methodology to determine whether a U.S. top-tier bank holding company is a GSIB based on five broad categories that are believed to be good proxies for, and correlated with, systemic importance – size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity. If a bank holding company’s score as calculated under the proposed methodology is 130 basis points or greater, then such a bank holding company would be designated as a GSIB. Under the proposed methodology, eight large U.S. bank holding companies currently would be identified as GSIBs.

A firm that is designated as a GSIB under the proposed methodology would calculate a GSIB surcharge using two methods. The first method would be based on the sum of a firm’s systemic indicator scores reflecting its size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity (method 1). The second method would be based on the sum of the firm’s systemic indicator scores reflecting its size, interconnectedness, cross-jurisdictional activity, and complexity, as well as a measure of use of short-term wholesale funding, but would exclude the systemic indicator scores reflecting the firm’s substitutability (method 2), and would generally result in higher surcharges as compared to method 1. A GSIB’s surcharge would be the higher of the two surcharges determined under the two methods.

The proposal would amend the Board's regulatory capital rule to increase a GSIB's capital conservation buffer by the amount of its GSIB surcharge.⁶ For example, under the proposal, a bank holding company subject to a GSIB surcharge of 2.5 percent would have a capital conservation buffer of 5.0 percent, which is the sum of the 2.5 percent capital conservation buffer and its GSIB surcharge.⁷ The Board is proposing that the GSIB surcharge become effective pursuant to the same timeline as the capital conservation buffer, which will be phased in beginning in 2016 at a rate of 25 percent per year and become fully effective on January 1, 2019.⁸

The proposed GSIB surcharge is designed to reduce a GSIB's probability of default such that a GSIB's expected systemic impact is approximately equal to that of a large, non-systemic bank holding company. Distress at a GSIB would have substantially greater negative consequences on the financial system than the failure of other bank holding companies that may be large or interconnected, but that do not have comparable systemic risk profiles. Distress at a GSIB can lead to a domino effect, whereby a GSIB's counterparties are placed under severe strain when the GSIB does not meet its financial obligations. The inability of a counterparty of a GSIB to meet its obligations leads, in turn, to severe strains at its significant counterparties, leading to more firms being unable to fulfill their contractual obligations. In addition, distress at a GSIB can lead to fire sales in asset

⁶ See 12 CFR 217.11. Implementation of the GSIB surcharge as an expansion of the capital conservation buffer is also the method of implementation chosen by the BCBS in the BCBS global framework. See paragraph 129 of the Basel III framework and paragraph 46 of the BCBS Revised Document.

⁷ This example assumes that any applicable countercyclical capital buffer amount is zero.

⁸ 12 CFR 217.300(a).

markets, when a GSIB engages in distressed sales in an effort to obtain needed liquidity. The sudden increase in market supply of assets drives down prices. This effect is transmitted not only to firms that must sell assets to meet immediate liquidity needs but, because of margin calls and mark-to-market accounting requirements, to many other firms as well. There can also be information contagion effects, where market participants conclude from a GSIB's distress that other firms holding similar assets or following similar business models are likely to also be facing distress. Taken together, these impacts indicate that the failure of a GSIB could affect not only those firms closely connected to the GSIB, but also the broader financial system. Because the systemic loss given default of a GSIB is much greater than that of a large, non-systemic bank holding company, its probability of default must be significantly lower than that of a large, non-systemic bank holding company in order to equalize the expected systemic impact of its failure or distress.

The proposed GSIB surcharge increases in stringency based on a GSIB's risk characteristics, including size, complexity, interconnectedness, cross-jurisdictional activity, and use of short-term wholesale funding. In this way, the calibration is designed to induce a GSIB to reduce its risk of failure, internalize the negative externalities it poses, and correct for competitive distortions created by the perception that it may be too big to fail. In addition, the proposed GSIB surcharge would place additional private capital at risk before the Federal Deposit Insurance Fund or the Federal government's resolution mechanisms would be called upon and would reduce the likelihood of economic disruptions as a result of financial distress at these institutions.

D. Integrated Set of Prudential Standards

The proposed GSIB surcharge is one of several enhanced prudential standards that the Board has developed pursuant to section 165 of the Dodd Frank Act. In November 2011, the Board and the Federal Deposit Insurance Corporation (FDIC) issued a joint final rule that would require bank holding companies and foreign banking organizations with \$50 billion or more in total consolidated assets and nonbank financial companies designated by the Council for supervision by the Board to submit annual resolution plans.⁹ Also in November 2011, the Board issued a final rule requiring a bank holding company to submit an annual capital plan to the Board in which it demonstrates the ability to meet the Board's minimum regulatory capital requirements over a range of stressed conditions.¹⁰ In October 2012, the Board issued two final rules implementing stress testing requirements for certain bank holding companies, state member banks, and savings and loan holding companies pursuant to sections 165(i)(1) and (2) of the Dodd-Frank Act.¹¹ In February 2014, the Board issued a final rule establishing liquidity and risk management standards for U.S. bank holding companies and capital, stress testing, liquidity, and risk management standards for foreign banking organizations.¹² Finally, in September 2014, the Board, the FDIC, and the Office of the Comptroller of the

⁹ 12 CFR Part 243.

¹⁰ See 12 CFR 225.8. See 76 FR 74631 (December 1, 2011); 79 FR 64026 (October 27, 2014); and 79 FR 13498 (March 11, 2014).

¹¹ See 12 USC 5365(i)(1) and 12 CFR 252, subparts E and F. See 77 FR 62378 (October 12, 2012); 79 FR 64026 (October 27, 2014); and 79 FR 13498 (March 11, 2014).

¹² See 79 FR 17240 (March 27, 2014).

Currency (OCC) issued the liquidity coverage ratio rule (LCR rule) that creates for the first time a standardized minimum liquidity coverage ratio requirement for the largest, most complex banking organizations.¹³

In addition, the Board has adopted measures to strengthen the capital regulations applicable to all banking organizations. In July 2013, the Board, the FDIC, and the OCC adopted a final rule revising the regulatory capital rule to increase the quality and quantity of regulatory capital that must be maintained by banking organizations, and to improve risk coverage by more accurately measuring the risk inherent in exposures.¹⁴ The final rule also established a capital conservation buffer that incentivizes banking organizations to hold capital in excess of regulatory minimums by imposing increasingly stringent limits on capital distributions and certain discretionary bonus payments as the banking organization's buffer falls below specified thresholds. For the case of banking organizations subject to the advanced approaches rule, the regulatory capital rule also includes a mechanism for increasing the capital conservation buffer when credit markets overheat (through the countercyclical buffer), and a supplementary leverage ratio that takes into account both on- and off-balance sheet exposures.¹⁵ In April 2014, the Board, the FDIC, and the OCC issued enhanced supplementary leverage ratio standards for the largest, most complex bank holding companies (i.e., the bank holding companies that would be identified as GSIBs under the

¹³ 79 FR 61440 (October 10, 2014).

¹⁴ The Board and the OCC issued a joint final rule on October 11, 2013 (78 FR 62018) and the FDIC issued a substantially identical interim final rule on September 10, 2013 (78 FR 55340). In April 2014, the FDIC adopted the interim final rule as a final rule with no substantive changes. 79 FR 20754 (April 14, 2014).

¹⁵ Id. at 62170-62172.

proposed rule) and their insured depository institution subsidiaries, under which such bank holding companies must maintain a supplementary leverage ratio of 5 percent or more in order to avoid limitations on distributions and certain discretionary bonus payments, and such insured depository institution subsidiaries must maintain a supplementary leverage ratio of 6 percent or more to be “well capitalized” under the agencies’ prompt corrective action regulations.¹⁶

The Board continues to develop additional enhanced standards that will mitigate risks to U.S. financial stability posed by certain banking organizations.

E. Global Framework

The proposed GSIB surcharge is consistent with global efforts to address the financial stability risks posed by the largest, most interconnected financial institutions. Following the financial crisis, the Group of Twenty Finance Ministers and Central Bank Governors (G-20) requested that the Financial Stability Board (FSB) develop a policy framework to address the systemic and moral hazard risks associated with systemically important financial institutions, and in particular, global systemically important financial institutions.¹⁷ In November 2010,

¹⁶ See 79 FR 24528 (May 1, 2014). The supplementary leverage ratio comes into effect on January 1, 2018 and applies to top-tier U.S. bank holding companies with more than \$700 billion in total consolidated assets or more than \$10 trillion in assets under custody (covered BHCs), as well as insured depository institution subsidiaries of the covered BHCs. As discussed in section IV of this preamble, the proposal would amend the supplementary leverage ratio rule to ensure consistency of the scopes of application for the supplementary leverage ratio rule and the GSIB proposal.

¹⁷ The G-20 was established in 1999 to bring together industrialized and developing economies to discuss key issues in the global economy. Members include finance ministers and central bank governors of 19 countries (Argentina, Australia, Brazil, Canada, China,

the G-20 endorsed an FSB policy framework for addressing these institutions, one element of which is a capital surcharge for global systemically important financial institutions.¹⁸ In November 2011, the FSB published an integrated set of policy measures to address the systemic and moral hazard risks associated with global systemically important financial institutions, intended to mitigate the impact of the failure of a global systemically important financial institution and reduce any competitive funding advantages these firms may have as a result of the perception that they are too big to fail.¹⁹ The FSB identified the global systemically important financial institutions using an assessment methodology and framework developed by the Basel Committee on Banking Supervision (BCBS framework).²⁰ The BCBS calculates global firms' scores and releases the lists of global

France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, U.K., and U.S.) and the European Union. The FSB was established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. The FSB brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

¹⁸ For additional background on the November 2010 initiative, see www.financialstabilityboard.org/press/pr_101111a.pdf.

¹⁹ See "Policy Measures to Address Systemically Important Financial Institutions" available at www.financialstabilityboard.org/publications/r_111104bb.pdf.

²⁰ The Basel Committee on Banking Supervision (BCBS) is a committee of banking supervisory authorities established by the central bank Governors of the Group of Ten countries in 1975. The committee's membership consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. It usually

systemically important financial institutions, including global systemically important banking organizations, on an annual basis.²¹

The BCBS plans to review the BCBS framework, including the indicator-based measurement approach and the threshold scores for identifying global systemically important financial institutions, every three years in order to capture developments in the banking sector and any progress in methods and approaches for measuring systemic importance.²² The first three-year review has already begun. In connection with this review, the Board has encouraged the BCBS to consider including a measure of short-term wholesale funding within the BCBS framework.

II. Description of the Proposal to Measure and Impose Capital Requirements Based Upon Global Systemic Importance

The proposal would establish a methodology for identifying a U.S. bank holding company as a GSIB based on the bank holding company's systemic risk profile and establishing the appropriate size of the GSIB surcharge.

meets at the Bank for International Settlements (BIS) in Basel, Switzerland, where its permanent Secretariat is located. See "Global systemically important banks: Assessment methodology and the additional loss absorbency requirement" available at www.bis.org/publ/bcbs201.htm. In July 2013, the BCBS published revisions to this document entitled, "Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement," which provides certain revisions and clarifications to the initial framework. The document is available at www.bis.org/publ/bcbs255.htm.

²¹ See http://www.bis.org/bcbs/gsib/gsibs_as_of_2014.htm.

²² See paragraph 39 of the Revised BCBS Document.

A. Identification of a GSIB

The proposal would require each U.S. top-tier bank holding company with total consolidated assets of \$50 billion or more that is not a subsidiary of a non-U.S. banking organization to determine annually whether it is a GSIB by using five categories that measure global systemic importance: size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity. These proposed categories were chosen to measure whether the failure of a bank holding company, or the inability of a bank holding company to conduct regular course-of-business transactions, would likely impair financial intermediation or financial market functioning so as to inflict material damage on the broader economy. These factors are also consistent with the factors that the Board considers in reviewing financial stability implications of proposed mergers and acquisitions by banking organizations.²³

The proposal identifies individual systemic indicators that measure the firm's profile within each category, set forth in Table 1 below, and sets forth a weighting for those indicators to compute a bank holding company's systemic indicator score. The advantages of a multiple indicator-based measurement approach is that it encompasses many dimensions of systemic importance and is transparent. These systemic indicators, and their relationship to financial stability, are described in section III of this preamble.

²³ The Dodd-Frank Act requires the Board to consider risks to U.S. financial stability when approving applications and notices by bank holding companies under sections 3 and 4 of the Bank Holding Company Act. Dodd-Frank Act, § 604(d) and (e), codified at 12 U.S.C. § 1842(c)(7) and 1843(j)(2)(A). Other provisions of the Dodd-Frank Act impose a similar requirement that the Board consider or weigh the risks to financial stability posed by a merger, acquisition, or expansion proposal by a financial institution. See sections 163, 173 of the Dodd-Frank Act.

Table 1 — Systemic Indicators

Category	Systemic Indicator	Indicator Weight
Size	Total exposures	20%
Interconnectedness	Intra-financial system assets	6.67%
	Intra-financial system liabilities	6.67%
	Securities outstanding	6.67%
Substitutability	Payments activity	6.67%
	Assets under custody	6.67%
	Underwritten transactions in debt and equity markets	6.67%
Complexity	Notional amount of over-the-counter (OTC) derivatives	6.67%
	Trading and available-for-sale (AFS) securities	6.67%
	Level 3 assets	6.67%
Cross-jurisdictional activity	Cross-jurisdictional claims	10%
	Cross-jurisdictional liabilities	10%
Total for twelve indicators across five categories:		100%

To determine whether it is a GSIB, a bank holding company would first identify values for each systemic indicator listed in Table 1 that it reported on its most recent Banking Organization Systemic Risk Report (FR Y-15).²⁴ The bank holding company would then divide each of these values by the corresponding aggregate global indicator

²⁴ Subject bank holding companies are required to file the FR Y-15. In addition, a bank holding company that is designated as a GSIB would be required to calculate its systemic score the following year, regardless of whether it has \$50 billion in total assets that year. See Instructions for Preparation of Banking Organization Systemic Risk Report available at http://www.federalreserve.gov/reportforms/forms/FR_Y-1520131231_i.pdf. The Board intends to seek comment on a proposal to revise the measure of total exposure to align with recent revisions to the Board's supplementary leverage ratio rule. 79 FR 57725 (September 26, 2014).

amount published by the Board in the fourth quarter of that year. This aggregate global indicator amount corresponds to the amount released by the BCBS, converted from Euros to U.S. dollars using the conversion rate provided by the BCBS. The aggregate global indicator amount released by the BCBS is the sum of the systemic indicator amounts for each category listed in Table 1 above, as reported by a sample of the largest banking organizations in the world for each systemic indicator.²⁵ The resulting quotient for each indicator would be multiplied by the prescribed weighting indicated in Table 1 above, and then multiplied by 10,000 to reflect the result in basis points. For example, if a bank holding company's cross-jurisdictional claims divided by the associated aggregate global amount for that indicator is 0.03 (that is, the firm's cross-jurisdictional claims amount is equal to 3 percent of the aggregate global amount for cross-jurisdictional claims), then its cross-jurisdictional claims indicator score would be 30 basis points ($0.03 \times 0.1 \times 10,000$). A bank holding company would then sum the weighted values for the twelve systemic indicators to determine its aggregate systemic indicator score and whether it would be identified as a GSIB, provided that the value for the substitutability indicators

²⁵ The sample of global banking organizations includes the following:

(1) banking organizations identified as the 75 largest global banking organizations, based on the financial year-end Basel III framework leverage ratio exposure measure; (2) banking organizations that were designated as GSIBs by the FSB in the previous year (unless supervisors agree that there is compelling reason to exclude them); and (3) banking organizations that have been added to the sample group by national supervisors using supervisory judgment (subject to certain criteria). *See* paragraph 26 of the BCBS Revised Document. The BCBS publishes annually the aggregate global indicator amount for each indicator. The Board will make this information available on its public website, through a press release, or by publication in the Federal Register.

would be capped at 100, as described in section III.C of this preamble.²⁶ Under this methodology, a bank holding company's systemic importance depends on the amount of its activity in each systemic indicator relative to the global magnitude of the activity. The multi-indicator approach reflects the fact that there are multiple elements that contribute to systemic importance. The aggregate global indicator amounts released annually by the BCBS provide a simple and convenient means of comparing the global, consolidated activities of similarly situated global banking organizations.

In determining the threshold for identifying a GSIB, the Board analyzed various potential metrics for evaluating the systemic importance of large banking organizations, including those in the BCBS framework.²⁷ According to the Board's analysis, across many potential metrics, there is a clear separation in systemic risk profiles between the eight U.S. top-tier bank holding companies that would be identified as GSIBs under the proposed methodology and other bank holding companies. For example, using the estimated global systemic scores for the U.S. bank holding companies with over \$50 billion of total consolidated assets as derived from data reported on the FR Y-15 filed in March 2014, there is a significant gap in scores among the largest bank holding companies, with all entities other than the eight bank holding companies that would currently be identified as GSIBs receiving

²⁶ Relative to the other categories in the method 1 surcharge, the substitutability category has a greater-than-intended impact on the assessment of systemic importance for certain banking organizations that are dominant in the provision of asset custody, payment systems, and underwriting services. Accordingly, the proposal would cap the maximum weighted score for the substitutability category at 100 basis points so that the substitutability category does not have a greater than intended impact on a bank holding company's global systemic score.

²⁷ See Appendix 2 of the BCBS Initial Document and Appendix 2 of the BCBS Revised Document for a detailed discussion of the empirical analysis conducted by BCBS.

aggregate systemic indicator scores of less than 50 points. Further, the bank holding company with the highest aggregate systemic indicator score that is not a GSIB received a score of approximately one third of that of the GSIB with the lowest aggregate systemic indicator score. The 130 basis point threshold is intended to capture the bank holding companies that are in this separate, higher systemic importance group. Bank holding companies with aggregate systemic indicator scores under the 130 basis point threshold would not be subject to a GSIB surcharge.²⁸

The proposal would require a bank holding company with total consolidated assets of \$50 billion or more to begin calculating its aggregate systemic indicator score by December 31 of the year in which it crosses the \$50 billion threshold. While the Board's other regulations implementing section 165 of the Dodd-Frank Act generally measure application of the enhanced prudential standards based on a four-quarter average of total consolidated assets, the proposal would adopt a June 30 measurement date of total consolidated assets to be consistent with the FR Y-15 reporting schedule.

Question 1. What are commenters' views on the scope of application of the proposal? Is the \$50 billion total consolidated asset threshold appropriate for requiring bank holding companies to calculate their systemic indicator scores, or should some higher asset threshold be considered? Is it appropriate to exclude bank holding companies that are subsidiaries of non-U.S. banking organizations from the proposal's scope of application?

²⁸ Scores would be rounded according to standard rounding rules for the purposes of assigning levels. That is, fractional amounts between zero and one-half would be rounded down to zero, while fractional amounts at or above one-half would be rounded to one.

Question 2. What, if any, different or additional indicators should the Board consider for the identification of a bank holding company as a GSIB? In particular, should the Board take into account a bank holding company's use of short-term wholesale funding instead of or in addition to substitutability in determining whether it should be designated as a GSIB? Why or why not?

Question 3. What, if any, different aggregate systemic indicator score threshold should the Board consider for the designation of a bank holding company as a GSIB?

Question 4. If the proposed framework were applied to nonbank financial companies designated by the Financial Stability Oversight Council for Board oversight, how (if at all) should the framework be modified to capture the systemic risk profile of those companies?

B. Using Systemic Indicators Reported on the FR Y-15

As noted above, the systemic indicators are aligned with those reported by a bank holding company on the FR Y-15. The FR Y-15, implemented on December 31, 2012, is an annual report that gathers data on components of systemic risk from large bank holding companies and provides firm-specific information to enable an analysis of the systemic risk profiles of such firms.²⁹ The FR Y-15 was developed to facilitate the implementation of the GSIB surcharge through regulation, and also is used to analyze the systemic risk implications of proposed mergers and acquisitions and to monitor, on an ongoing basis, the systemic risk profiles of bank holding companies subject to enhanced prudential standards under section 165 of the Dodd-Frank Act. As of December 31, 2013, all U.S. top-tier bank holding

²⁹ See 77 FR 76487 (December 28, 2012). The Board subsequently revised the FR Y-15 in December 2013. See 78 FR 77128 (December 20, 2013).

companies with total consolidated assets of \$50 billion or more are required to file the FR Y-15 on an annual basis. In connection with this proposal, the Board intends to modify the FR Y-15 to gather information on bank holding companies' use of short-term wholesale funding.

Question 5. Is the proposed use of June 30 as the measurement date for the \$50 billion total consolidated asset threshold appropriate? Is there an alternative measurement date that should be used?

C. Computing the Applicable GSIB Surcharge

Under the proposal, a bank holding company with an aggregate systemic indicator score of 130 basis points or greater would be identified as a GSIB and as such, would be subject to the higher of the two surcharges calculated under method 1 and method 2, as described below.

1. Method 1 Surcharge

A GSIB's method 1 surcharge would be the capital surcharge set forth in Table 2 below that corresponds to its aggregate systemic indicator score. As discussed further in section II.C.3 of this preamble, the proposed method 1 surcharge reflects one method of calibrating the size of a surcharge based on the probable systemic impact from the failure of a GSIB as compared to a bank holding company that is large, but not systemically important.

Table 2 — Method 1 Surcharge

Systemic Indicator Score (basis points)	Method 1 Surcharge
Less than 130	0.0 percent (no surcharge)
130 – 229	1.0 percent
230 – 329	1.5 percent
330 – 429	2.0 percent
430 – 529	2.5 percent
530 – 629	3.5 percent

Systemic Indicator Score (basis points)	Method 1 Surcharge
630 or greater	3.5 percent plus 1.0 percentage point for every 100 basis point increase in score

For instance, if a GSIB's systemic indicator score were 250, the GSIB's method 1 surcharge would be 1.5 percent.

As reflected in Table 2, the lowest method 1 surcharge would correlate to a method 1 score band ranging from 130 basis points to 229 basis points and would increase in increments of 0.5 percentage points for each additional 100 basis-point band, up to a method 1 surcharge of 2.5 percent. To account for the possibility that a GSIB's aggregate systemic indicator score could increase in the future beyond the fourth band, the proposal would require a one percentage point increase in the method 1 surcharge for each 100 basis point band at and above 530 basis points. An indefinite number of bands would give the Board the ability to assess an appropriate method 1 surcharge should a GSIB become significantly more systemically important, and would create disincentives for continued increases in global systemic scores.

Calibrating the surcharge using bands, as set forth in the proposal, or using a continuous function that increases linearly based on the weighted average of a bank holding company's systemic indicator score was considered during the development of the proposal. While the continuous function is more sensitive to changes in a bank holding company's systemic risk profile, it could be less transparent to the public and may be misleading in its precision as a measure of systemic risk. Accordingly, the proposal uses bands because it is a

simple, transparent method that enables a GSIB and the public to better anticipate the size of the method 1 surcharge for future periods. The bands are intended to be sufficiently large so that modest changes in a firm's systemic indicators would not cause a firm to move between surcharge amounts. However, to the extent that a marginal change in a bank holding company's systemic risk profile caused the bank holding company to have a higher method 1 score, the proposal would delay the effective date of the higher method 1 score for a full year after it was calculated.

2. Method 2 Surcharge

As a second step to determining its GSIB surcharge, a GSIB would be required to compute its surcharge under method 2. Under method 2, the GSIB would calculate a score for the size, interconnectedness, complexity, and cross-jurisdictional activity systemic indicators in the same manner as undertaken to compute its aggregate systemic indicator score. However, rather than using the substitutability systemic indicator used under method 1, the GSIB would instead add to its score a quantitative measure of its use of short-term wholesale funding (short-term wholesale funding score).

The proposal would include a firm's short-term wholesale funding score as a factor in the GSIB surcharge in order to address the systemic risks associated with short-term wholesale funding use. As described in section I.A. of this preamble, use of short-term wholesale funding generally increases a firm's probability of default by making the firm vulnerable to short-term creditor runs, and increases the likely social costs of the firm's distress, including by heightening the risk that the firm's significant stress or failure will give rise to fire sale externalities. Incorporating a short-term wholesale funding score into the

GSIB surcharge framework would require a GSIB to hold more capital based on whether it relies more heavily on short-term wholesale funding. The increased capital charge would help increase the resiliency of the firm against runs on its short-term wholesale funding and help internalize the cost of using short-term wholesale funding. A GSIB may opt to modify its funding profile to reduce its use of short-term wholesale funding, or continue to use short-term wholesale funding to the same degree but hold additional capital.

The proposed method 2 would not rely on a measure of substitutability, even though the proposal would use substitutability to determine whether a bank holding company would be identified as a GSIB. A bank holding company's substitutability is relevant in determining whether a bank holding company is a GSIB, as the failure of a bank holding company that performs a critical function where other firms lack the expertise or capacity to do so can pose significant risks to U.S. financial stability. However, the capital surcharge imposed on a GSIB should be designed to address the GSIB's susceptibility to failure, and increasing a GSIB's surcharge based on short-term wholesale funding use rather than substitutability is a more effective means of requiring a GSIB to internalize the externalities it imposes on the broader financial system and reduce its probability of failure. A GSIB's short-term wholesale funding score would be based on the GSIB's average use of short-term wholesale funding sources over a calendar year. The proposed components of short-term wholesale funding would be weighted to account for the varying degrees of risk associated with different sources of short-term wholesale funding, and would then be divided by the GSIB's average total risk-weighted assets over the same calendar year. A GSIB would then apply a fixed conversion factor to the measure of short-term wholesale funding to normalize

the value of short-term wholesale funding relative to the other systemic indicators. This amount would constitute the GSIB’s short-term wholesale funding score. The methodology to calculate the short-term wholesale funding score, including its justification, is described in detail in section III.F of this preamble.

Once a GSIB calculates its short-term wholesale funding score, the GSIB would add its short-term wholesale funding score to the systemic indicator scores for the size, interconnectedness, complexity, and cross-jurisdictional activity indicators and multiply this figure by two to arrive at its method 2 score. To determine its method 2 surcharge, a GSIB would identify the method 2 surcharge that corresponds to its method 2 score, as identified in Table 3 below.

Table 3 — Method 2 Surcharge

Method 2 Score (basis points)	Method 2 Surcharge
Less than 130	0.0 percent (no surcharge)
130 – 229	1.0 percent
230 – 329	1.5 percent
330 – 429	2.0 percent
430 – 529	2.5 percent
530 – 629	3.0 percent
630 – 729	3.5 percent
730 – 829	4.0 percent
830 – 929	4.5 percent
930 – 1029	5.0 percent
1030 – 1129	5.5 percent
1130 or greater	5.5 percent plus 0.5 percentage point for every 100 basis point increase in score

For instance, if a GSIB’s short-term wholesale funding score were 200 and the sum of its systemic indicator scores for the size, interconnectedness, complexity, and cross-

jurisdictional activity indicators were 530, the GSIB's method 2 score would equal 730, and its method 2 surcharge would be 4.0 percent.

Like the bands of the method 1 surcharge, the method 2 surcharge would use band ranges of 100 basis points, with the lowest band ranging from 130 basis points to 229 basis points. The method 2 surcharge would increase in increments of 0.5 percentage points per band, including bands at and above 1130 basis points. The modified band structure is appropriate for the method 2 surcharge because the proposed method's doubling of a GSIB's method 2 score could otherwise impose a surcharge that is larger than necessary to appropriately address the risks posed by a GSIB's systemic nature. As with the method 1 surcharge, the method 2 surcharge would include an indefinite number of bands in order to give the Board the ability to assess an appropriate surcharge should a GSIB become significantly more systemically important and would create disincentives for continued increases in systemic indicator and short-term wholesale funding scores.

3. Calibration of GSIB Surcharge and Estimated Impact

Under the proposal, a GSIB would be subject to the greater surcharge resulting from the two methods described above. Based upon the proposed formulation of method 2, in most instances, a GSIB would be subject to the surcharge resulting from method 2.

The proposed calibration of the GSIB surcharges is based on the Board's analysis of the additional capital necessary to equalize the probable systemic impact from the failure of a GSIB as compared to the probable systemic impact from the failure of a large, but not systemically important, bank holding company. Increased capital at a GSIB increases the firm's resiliency to failure, thereby reducing the probability of it having a systemic effect.

The proposed approach also builds on analysis of the return on risk-weighted assets that was developed to inform the calibration of the minimums and capital conservation buffers of the Board's regulatory capital rule.

In addition, the Board considered the long-term economic impact of stronger capital and liquidity requirements at banking organizations. In 2010, the BCBS published a study (2010 BCBS study), which estimated, using historical data, that the economic benefits of more stringent capital and liquidity requirements, on net, outweighed the cost of such requirements and that benefits would continue to accrue at even higher levels of risk-based capital than are a part of the Board's regulatory capital rule.³⁰ The Board also considered that other jurisdictions have established capital requirements for global systemically important banking organizations that exceed those required by the BCBS framework; for instance, by imposing a larger surcharge upon global systemically important banking organizations than would be imposed under the BCBS framework or by requiring implementation of a global systemically important banking organization surcharge on a more expedited timeline. For example, Switzerland, Sweden, and Norway each require global systemically important banking organizations to adhere to capital requirements larger than those of the BCBS framework.³¹

³⁰ See "An assessment of the long-term economic impact of stronger capital and liquidity requirements," available at <http://www.bis.org/publ/bcbs173.pdf> (August 2010). This study specified that tangible common equity is net of goodwill and intangibles and is therefore analogous to common equity tier 1 capital under the regulatory capital rule.

³¹ See the Swiss Financial Market Supervisory Authority FINMA's "Pillar 2 Capital Adequacy Requirements for Banks Fact Sheet" published June 17, 2013, available at:

Under the proposal, the method 1 surcharge would serve as a floor for the GSIB surcharge. Like the method 2 surcharge, the method 1 surcharge is based on the expected impact approach, but differs in three important ways. First, based upon current data, method 1 generally results in lower GSIB surcharges than method 2. Second, as compared to method 2, method 1 increases the GSIB surcharge at a higher rate to the extent a GSIB's systemic risk profile were to exceed the highest aggregate systemic indicator scores of the current GSIB population. As described above, the proposed method 1 surcharge would increase in 0.5 percentage point increments up to 2.5 percent, and then in 1.0 percentage point increments after a GSIB's systemic risk profile increases beyond the maximum current level (i.e., beyond 250 points). Accordingly, in the future, a GSIB that increases in systemic importance could be bound by proposed method 1, rather than method 2. Third, method 1 would use a measure of substitutability. While the use of short-term wholesale funding is likely a more effective indicator for evaluating a GSIB's susceptibility to failure, a GSIB with a high substitutability score but low systemic indicator scores in all other categories may be subject to a surcharge under method 1 but not under method 2. In this case, imposing the method 1 surcharge would be appropriate, in order to correct for competitive and systemic

<http://www.finma.ch/e/finma/publikationen/faktenblaetter/Documents/fb-eigenmittelnforderungen-banken-e.pdf>, the Riksbank Financial Stability Report, Q2:2013, published November 2013, available at: http://www.riksbank.se/Documents/Rapporter/FSR/2013/FSR_2/rap_fsr2_131128_eng.pdf, and the Norwegian Ministry of Finance press release "Regulation and decision on systemically important financial institutions," published May 12, 2014, available at <http://www.regjeringen.no/en/dep/fin/press-center/press-releases/2014/Regulation-and-decision-on-systemically-important-financial-institutions.html?id=759115>

distortions created by the perception that the GSIB may be too big to fail. Notably, this approach would also facilitate comparability among jurisdictions implementing the BCBS framework.

Using data as of year-end 2013, the Board estimates that the GSIB surcharges that would apply to the eight U.S. top-tier bank holding companies that would be identified as GSIBs would range from 1.0 to 4.5 percent.³² Based upon these estimates, nearly all of the eight firms would already meet their GSIB surcharges on a fully phased-in basis, and all firms are on their way to meeting their surcharges over the proposed three-year phase-in period.

Question 6. The Board seeks comment on all aspects of the calibration of the GSIB surcharge. What are commenters' views regarding the proposed calibration? What are commenters' views regarding the benefits and challenges associated with the proposed two-method approach for determining the amount of the GSIB surcharge?

Question 7. What are commenters' views on the appropriateness of replacing the substitutability indicator with the short-term wholesale funding score under method 2?

Question 8. What are commenters' views on how the proposed GSIB surcharge would impact the competitive position of GSIBs relative to foreign peer institutions?

Question 9. What potential costs would be imposed on bank holding companies if the proposed GSIB surcharge were implemented? What are the potential impacts of the proposed framework on economic growth, credit availability, and credit costs in the United

³² These preliminary estimates were generated using BCBS aggregate global indicator amounts from year-end 2013, 2013 Y-15 data, and aggregated 2013 short-term wholesale funding data from the FR 2052a.

States, over the short-term and long-term? How could potential costs, burdens, and other adverse effects be minimized while achieving the financial stability benefits of the proposed GSIB surcharge?

4. *Alternative Method of Capturing Use of Short-term Wholesale Funding*

Alternative methods could be used to reflect use of short-term wholesale funding within the GSIB surcharge. For example, the applicable surcharge might be calculated by using short-term wholesale funding as a scaling factor for the method 1 surcharge. For example, one approach might be:

$$GSIB_{Method2} = F * (GSIB_{Method1}),$$

where $GSIB_{Method2}$ is the result of scaling the method 1 surcharge, and where $F = 1 + \left(\frac{STWF}{RWA}\right) \times n$, where STWF is a GSIB's short-term wholesale funding amount and RWA is the total risk-weighted assets of a GSIB. The parameter n would be chosen to capture concerns about a GSIB's default probability and its interaction with the externalities identified in the $GSIB_{Method1}$ methodology.

As noted above, the Board believes that in most instances, $GSIB_{Method2}$ will be greater than $GSIB_{Method1}$. Multiplying the method 1 surcharge by a scaling factor F could result in stronger incentives to reduce use of short-term wholesale funding, particularly among the most systemic firms. For example, using the existing measure of reliance (short-term wholesale funding/total average risk-weighted assets) and a scaling factor of 4 ($n=4$) produces a comparable set of surcharges relative to the method 2 surcharge described above. Similarly, choosing a smaller factor for n would result in a smaller increase in GSIB surcharges.

Scaling the method 1 surcharge using a factor that incorporates short-term wholesale funding would reflect the view that the externalities associated with short-term wholesale funding depend largely on those firms identified as GSIBs under the proposed methodology. As a result, this alternative approach would maintain consistency with the BCBS framework's surcharge methodology. In addition, alternative scaling factors might be considered by altering the definition of short-term wholesale funding or using alternative dominators other than total average risk-weighted assets.

Question 10. What are commenters' views regarding scaling the method 1 surcharge to capture use of short-term wholesale funding? How should the scaling factor be chosen?

D. Augmentation of the Capital Conservation Buffer

Under the proposal, the GSIB surcharge would augment the regulatory capital rule's capital conservation buffer for purposes of determining the banking organization's maximum payout ratio.³³

Under the regulatory capital rule, a banking organization must maintain capital sufficient to meet a minimum common equity tier 1 capital requirement of 4.5 percent, a minimum tier 1 capital requirement of 6 percent, and a minimum total capital requirement of 8.0 percent. In addition to those minimums, in order to avoid limits on capital distributions and certain discretionary bonus payments, a banking organization must hold sufficient capital to satisfy the minimum capital requirements, plus a capital conservation buffer composed of common equity tier 1 capital equal to more than 2.5 percent of risk-weighted assets. The capital conservation buffer is divided into quartiles, each associated with increasingly

³³ 12 CFR 217.11(a).

stringent limitations on capital distributions and certain discretionary bonus payments as the capital conservation buffer approaches zero.³⁴

Under the proposal, the GSIB surcharge would expand each quartile of a GSIB's capital conservation buffer by the equivalent of one fourth of the GSIB surcharge.³⁵ The minimum common equity tier 1 capital requirement for banking organizations is 4.5 percent, which, when added to the capital conservation buffer of 2.5 percent, results in a banking organization needing to maintain a common equity tier 1 capital ratio of more than 7 percent to avoid limitations on distributions and certain discretionary bonus payments. Under the proposal, this 7 percent level would be further increased by the applicable GSIB surcharge.

The mechanics of the capital conservation buffer calculations, after incorporating the GSIB surcharge, are illustrated in the following example.³⁶ A bank holding company is identified as a GSIB under the proposed framework as a result of having an aggregate systemic indicator score of 350 basis points. Under method 1, the GSIB's score correlates to a 2.0 percent method 1 surcharge. Under method 2, the GSIB's method 2 score equals 625, so that the GSIB's score would correlate to a surcharge of 3.0 percent. As the method 2 surcharge is larger than the method 1 surcharge, the GSIB would be subject to a GSIB surcharge of 3.0 percent. As a result, in order to have no payout ratio limitation under the proposal, the GSIB must maintain a common equity tier 1 capital ratio in excess of 10

³⁴ See id.

³⁵ Separate from the possible expansion of the capital conservation buffer set forth in this proposal, the capital conservation buffer could also be expanded by any applicable countercyclical capital buffer amount. See 12 CFR 217.11(b).

³⁶ For the purposes of this example, all regulatory capital requirements are assumed to be fully phased in.

percent (determined as the sum of the minimum common equity tier 1 capital ratio of 4.5 percent plus the capital conservation buffer of 2.5 percent as expanded by the 3 percent GSIB surcharge). In determining the effect on capital distributions and bonus payments, each of the four quartiles of the GSIB’s capital conservation buffer would be expanded by one fourth of its GSIB surcharge, or by 0.75 percent, as set forth below in Table 5.

Table 5: Capital Conservation Buffer Assuming a 3 Percent GSIB Surcharge

Capital conservation buffer	Maximum payout ratio (as a percentage of eligible retained income)
Greater than 5.5 percent	No payout ratio limitation applies
Between 5.5 percent and 4.125 percent	60 percent
Between 4.125 percent and 2.75 percent	40 percent
Between 2.75 percent and 1.375 percent	20 percent
Less than or equal to 1.375 percent	0 percent

The Board will be analyzing in the coming year whether the Board’s capital plan and stress test rules should also include a form of GSIB surcharge.³⁷ If the Board were to decide to propose a GSIB surcharge for the capital plan and stress test rules at a later date, the Board would do so through a separate notice of proposed rulemaking.

E. Implementation and Timing

1. Ongoing applicability

Subject to the initial applicability provisions described in section E.2 of this preamble, if a top-tier U.S. bank holding company has total consolidated assets of \$50 billion or more for the first time as of June 30 of a given year (as reported on its FR Y-9C), under the proposal, that bank holding company must begin calculating its aggregate systemic

³⁷ See 12 CFR 225.8 and 12 CFR part 252.

indicator score by December 31 of that calendar year. If the bank holding company's aggregate systemic indicator score exceeds 130 basis points, the bank holding company would be identified as a GSIB, and would be required to calculate its GSIB surcharge (using both method 1 and method 2) by December 31 of that year. Under the proposal, the GSIB surcharge would become an extension of the GSIB's capital conservation buffer a full year later, on January 1 of the second calendar year, based on the surcharge calculated in the year the bank holding company was identified as a GSIB.

The proposed schedule is aligned with the filing schedule for the FR Y-15 report, which must be filed by any top-tier U.S. bank holding company with total consolidated assets of \$50 billion or more. Specifically, 65 calendar days after the December 31 as-of date of the FR Y-15, a bank holding company must file the FR Y-15 on which it reports the indicator values that comprise its aggregate systemic indicator score as of the end of the prior calendar year. Over the course of the year, the BCBS aggregates the indicator amounts from a specific sample of the largest global banking organizations (the 75 largest global banking organizations by total exposures, along with any banking organization that was designated as a global systemically important banking organization by the FSB in the previous year), and publishes its calculation of those aggregate amounts that November. Following publication by the BCBS, the Board will publish the aggregate global indicator amount, which generally will be equal to the amount published by the BCBS and converted into dollars. As noted above, a bank holding company with total consolidated assets of \$50 billion or more would be required to calculate its aggregate systemic indicator score by December 31, relying on the previous year-end data. If a bank holding company were identified as a GSIB, it would

also be required to calculate its GSIB surcharge by the end of the year in which it qualified as a GSIB. To perform this calculation, the GSIB would be required to retain data necessary to calculate its short-term wholesale fund score during the previous year.

For example, a bank holding company would file on March 1, 2020 a FR Y-15 report, on which it reported its systemic indicator values as of December 31, 2019. The BCBS would publish its estimates of the aggregate global indicator amounts as of December 31, 2019 in November 2020, and the Board would publish the aggregate global indicator amounts shortly thereafter. The bank holding company would calculate its aggregate systemic indicator score by December 31, 2020. If the bank holding company were identified as a GSIB by December 31, 2020, that GSIB would be required to calculate its global systemic score using its systemic indicators and short-term wholesale funding data as of December 31, 2019. In that instance, the GSIB would be required to use its GSIB surcharge to calculate its maximum payout ratio under the capital conservation buffer framework beginning on January 1, 2022.

After the initial GSIB surcharge is in effect, if a GSIB's systemic risk profile changes from one year to the next such that it becomes subject to a higher GSIB surcharge, the higher GSIB surcharge would not take effect for a full year (that is, two years from the systemic indicator measurement date). If a GSIB's systemic risk profile changes such that the GSIB would be subject to a lower GSIB surcharge, the GSIB would be subject to the lower surcharge beginning in the next quarter.

Question 11. What are commenters' views with regard to the proposal's dates for the measurement of systemic indicator scores for purposes of the GSIB surcharge? In light of

these dates, what challenges would bank holding companies encounter in retaining capital sufficient to adhere to the GSIB surcharge?

Question 12. What challenges would a bank holding company encounter in retaining short-term wholesale funding data sufficient to calculate the GSIB surcharge?

2. Initial applicability

For the eight bank holding companies that would currently be identified as GSIBs under the proposed methodology, the GSIB surcharge would be phased in from January 1, 2016 to December 31, 2018. This phase-in period was chosen to align with the phase-in of the capital conservation buffer and countercyclical capital buffer, as well as the phase-in period of the BCBS framework. Table 6 shows the regulatory capital levels that a GSIB must satisfy to avoid limitations on capital distributions and discretionary bonus payments during the applicable transition period, from January 1, 2016 to January 1, 2019.

Table 6 – Regulatory Capital Levels for GSIBs³⁸

	Jan. 1, 2016	Jan. 1, 2017	Jan. 1, 2018	Jan. 1, 2019
Capital conservation buffer	0.625%	1.25%	1.875%	2.5%
GSIB surcharge	25% of applicable GSIB surcharge	50% of applicable GSIB surcharge	75% of applicable GSIB surcharge	100% of applicable GSIB surcharge
Minimum common equity tier 1 capital ratio + capital conservation buffer + applicable GSIB surcharge	5.125% + 25% of applicable GSIB surcharge	5.75% + 50% of applicable GSIB surcharge	6.375% + 75% of applicable GSIB surcharge	7.0% + 100% of applicable GSIB surcharge

³⁸ Table 6 assumes that the countercyclical capital buffer is zero.

	Jan. 1, 2016	Jan. 1, 2017	Jan. 1, 2018	Jan. 1, 2019
Minimum tier 1 capital ratio + capital conservation buffer + applicable GSIB surcharge	6.625% + 25% of applicable GSIB surcharge	7.25% + 50% of applicable GSIB surcharge	7.875% + 75% of applicable GSIB surcharge	8.5% + 100% of applicable GSIB surcharge
Minimum total capital ratio + capital conservation buffer + applicable GSIB surcharge	8.625% + 25% of applicable GSIB surcharge	9.25% + 50% of applicable GSIB surcharge	9.875% + 75% of applicable GSIB surcharge	10.5% + 100% of applicable GSIB surcharge

The GSIB surcharge in effect on January 1, 2016, would rely on the systemic indicator scores reported as of December 31, 2014. However, given that bank holding companies have not been required to calculate or retain data related to their short-term wholesale funding scores (which is generally based on average data over the preceding calendar year), the proposal would measure a GSIB's short-term wholesale funding amount for: (i) the GSIB surcharge calculated by December 31, 2015, based on data from the third quarter of 2015, and (ii) the GSIB surcharge calculated by December 31, 2016, based on data from the third and fourth quarters of 2015. For the GSIB surcharge calculated by December 31, 2017 (assuming a GSIB's surcharge does not otherwise increase), the surcharge would be based on yearly data from 2016. In order to comply with the proposal, a bank holding company that is currently identified as a GSIB would be required to retain information to calculate its short-term wholesale funding amount beginning on July 1, 2015.

While the proposal would generally rely on a full calendar year of short-term wholesale funding data to compute a GSIB's short-term wholesale funding amount for purposes of calculating the GSIB's method 2 surcharge going forward, the proposed implementation schedule would rely on quarterly averages for the surcharges calculated by

December 31, 2015 and 2016, which should be sufficient to smooth the volatility for short-term wholesale funding while facilitating implementation of the method 2 surcharge on the same timeline as that used for the implementation of the method 1 surcharge.

Table 7 sets forth the reporting and compliance dates for the proposed GSIB surcharge described above.

Table 7: GSIB Surcharge Reporting and Compliance Dates During Phase-In Period

Date	Occurrence
March 2015	FR Y-15 filing deadline reflecting bank holding company systemic indicator values as of December 31, 2014
July 1, 2015	GSIBs begin collecting short-term wholesale funding data
November 2015	BCBS publishes aggregate global indicator amounts using 2014 data, and the Board publishes the aggregate global indicator amount for use by U.S. bank holding companies shortly thereafter
January 1, 2016	Bank holding companies identified as GSIBs are subject to GSIB surcharge (as phased in) calculated using year-end 2014 systemic indicator scores and Q3 2015 short-term wholesale funding data
March 2016	FR Y-15 filing deadline reflecting bank holding company (1) systemic indicator values and scores as of December 31, 2015 and (2) short-term wholesale funding score using Q3 and Q4 2015 data (to be separately proposed)
November 2016	BCBS publishes aggregate systemic indicator amounts using 2015 data, and the Board publishes the aggregate global indicator amount for use by U.S. bank holding companies shortly thereafter
December 31, 2016	Bank holding companies identified as GSIBs must calculate their GSIB surcharge using year-end 2015 systemic indicator scores and short-term wholesale funding score using Q3 and Q4 2015 short-term wholesale funding data
January 1, 2017	If the GSIB surcharge calculated by December 31, 2016, stays the same or decreases, the GSIB is subject to that GSIB surcharge (if the GSIB surcharge increases, increased GSIB surcharge comes into effect beginning on January 1, 2018)
March 2017	FR Y-15 filing deadline reflecting bank holding company (1) systemic indicator values and scores as of December 31, 2016; and (2) short-term wholesale funding score as of

Date	Occurrence
	December 31, 2016 using 2016 short-term wholesale funding data (to be separately proposed)
November 2017	BCBS publishes aggregate systemic indicator amounts using 2016 data, and the Board publishes the aggregate global indicator amount for use by U.S. bank holding companies shortly thereafter
December 31, 2017	Bank holding companies identified as GSIBs must calculate their GSIB surcharge using year-end 2016 systemic indicator scores and 2016 short-term wholesale funding score
January 1, 2017	If the GSIB surcharge calculated by December 31, 2017, stays the same or decreases, the GSIB is subject to that GSIB surcharge (if the GSIB surcharge increases, increased GSIB surcharge comes into effect beginning on January 1, 2019)

Question 13. What are commenters' views regarding the timing of the implementation of the GSIB surcharge? What are the benefits and drawbacks of aligning the effective dates of the method 1 and method 2 surcharges? Should the Board consider staggering the effectiveness of the method 1 and method 2 surcharges such that GSIBs would be able to use a year's worth of short-term wholesale funding data to compute their short-term wholesale funding scores? Why or why not?

Question 14. What are commenters' views with regard to the proposal's dates for the measurement of systemic indicator scores for purposes of the GSIB surcharge that is effective January 1, 2016? Would using data as of year-end 2014 present any difficulties in terms of capital retention for bank holding companies that are currently identified as GSIBs?

F. Periodic Review and Refinement of the Proposal

The Board recognizes that the proposal, if adopted, may require further refinement over time. The Board would monitor the proposed GSIB surcharge methodology and consider whether any revisions are necessary to improve the effectiveness of the GSIB surcharge in advancing the Board's goals. This could include consideration of any revisions

made by the BCBS to the BCBS framework, as well as revisions to the minimum threshold to qualify as a GSIB and revisions to the method 1 and method 2 surcharge calculations that may be necessary over time.³⁹ To the extent that revisions are deemed necessary, any proposed changes would be subject to notice and comment.

Question 15. How well would the proposal's GSIB surcharge incentivize bank holding companies to minimize their systemic risk profiles? How could the framework be changed to strengthen these incentives?

Question 16. How well does the proposal mitigate any implicit subsidies that GSIBs enjoy due to market perceptions that they are too big to fail? How well does the proposed framework force GSIBs to internalize the externalities that their failure or material financial distress would pose to the broader financial system?

Question 17. How well do the proposed indicators of global systemic importance and other aspects of the scoring methodology capture the relevant dimensions of global systemic importance and the negative externalities that global systemic importance can generate? What modifications or simplifications, if any, would be appropriate to assess global systemic importance?

Question 18. To what extent could bank holding companies and market participants easily determine a firm's GSIB surcharge? How could the Board make the proposal more transparent in this respect?

³⁹ The BCBS expects to review and refine the BCBS framework, including the initial threshold and the size of the surcharge buckets, every three years in order to capture developments in the banking sector and assess new approaches to measuring systemic risk. See paragraph 39 of the BCBS Revised Document.

Question 19. What are the advantages and disadvantages of a framework where a firm is identified as a GSIB not by firm-specific measures (e.g., a firm's size, interconnectedness, and other characteristics), but rather by how a firm's specific measures compare to the aggregate measures of a set of global large banking organizations? What are the implications for bank holding companies of using internationally compiled data to determine their systemic scores?

Question 20. What are the implications of periodically recalibrating the threshold scores and the size of the bands under methods 1 and 2? What are the implications of revising the framework over time? What factors should the Board consider in making such modifications and recalibrations?

Question 21. How well does the proposal reflect the changing elements of the global economy, such as growth in global domestic product, advances in financial intermediation, and inflation, and how might the proposal be adjusted to better reflect such elements?

III. Indicators of Global Systemic Risk

As described above, the Board is proposing to determine the systemic scores and GSIB surcharges of bank holding companies using six components under two formulations. These components, which are described in detail below, were chosen on the basis of the Board's belief that they are indicative of the global systemic importance of bank holding companies. Five of the components – size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity – have been previously identified as indicative of global systemic importance by the BCBS, FSB, and G-20, and are defined in detail in the

instructions for the FR Y-15.⁴⁰ The Board also intends to propose amendments to the FR Y-15 to collect information regarding the sixth component, a firm’s short-term wholesale funding amount, in the near term.

A. Size

A banking organization’s size is a key measure of its systemic importance. A banking organization’s distress or failure is more likely to negatively impact the financial markets and the economy more broadly if the banking organization’s activities comprise a relatively large share of total financial activities. Moreover, the size of exposures and volume of transactions and assets managed by a banking organization are indicative of the extent to which clients, counterparties, and the broader financial system could suffer disruption if the firm were to fail or become distressed. In addition, the larger a banking organization is, the more difficult it generally is for other firms to replace its services and, therefore, the greater the chance that the banking organization’s distress or failure would cause disruption.

Under the proposal, a bank holding company’s size would be equivalent to total exposures, which would mean the bank holding company’s measure of total leverage exposure calculated pursuant to the regulatory capital rule.⁴¹ The Board separately intends to propose changes to the FR Y-15 to align its definition of “total exposure” with the definition

⁴⁰ The systemic indicators described in the proposal are those previously identified as indicative of global systemic importance by the BCBS, FSB, and G-20. Many of the items reported on the FR Y-15 are also reported on the Consolidated Financial Statements for Holding Companies (FR Y-9C).

⁴¹ See 12 CFR 217.10(c)(4).

in the regulatory capital rule, and expects that these changes will be in effect before the March 2015 due date of the FR Y-15.

Question 22. What modifications, if any, are necessary to ensure that total exposure is a size indicator that appropriately measures the extent to which a bank holding company may cause damage or disruption to the broader financial system?

B. Interconnectedness

Financial institutions may be interconnected in many ways, as banking organizations commonly engage in transactions with other financial institutions that give rise to a wide range of contractual obligations. The proposal reflects the belief that financial distress at a GSIB may materially raise the likelihood of distress at other firms given the network of contractual obligations throughout the financial system. A banking organization's systemic impact is, therefore, likely to be directly related to its interconnectedness vis-à-vis other financial institutions and the financial sector as a whole.

Under the proposal, interconnectedness would be measured by intra-financial system assets, intra-financial system liabilities, and securities outstanding as of December 31 of a given year. These indicators represent the major components (lending, borrowing, and capital markets activity) of intra-financial system transactions and contractual relationships, and are broadly defined to capture the relevant dimensions of these activities by a bank holding company. For the purpose of the intra-financial system assets and intra-financial system liabilities indicators, financial institutions are defined by the FR Y-15 instructions as depository institutions (as defined in the FR Y-9C Instructions, Schedule HC-C, line item 2), bank holding companies, securities dealers, insurance companies, mutual funds, hedge funds,

pension funds, investment banks, and central counterparties (as defined in the FR Y-15 Instructions, Schedule D, line item 1).⁴² Central banks and multilateral development banks are excluded, but state-owned commercial banks are included.

It should be noted that the Board has developed different concepts and methodologies for identifying financial sector entities, including in the Board's regulatory capital rule, the FR Y-15, and the recently adopted LCR rule. The Board is proposing to continue using the definition that is reported on the Y-15 reporting form. The Board may consider converging these concepts and methodologies at some point in the future.

Question 23. What aspects, if any, of the measures of intra-financial system assets and intra-financial system liabilities should be adjusted to better capture interconnectedness between bank holding companies? What modifications to these indicators or additional indicators would more appropriately measure the interconnectedness associated with securities financing transactions and OTC derivative exposures? How, if at all, should collateral and netting agreements be reflected in these measures? What are the advantages and disadvantages of including in these measures exposures over which firms do not have control, such as the amount of their securities owned by other financial firms?

⁴² See FR Y-15 Instructions, Schedule B, line item 1.

“Central counterparties” for the purposes of the proposal has the same meaning used in the FR Y-15 Instructions, Schedule D, line item 1. That is, central counterparties are entities (e.g., a clearing house) that facilitate trades between counterparties in one or more financial markets by either guaranteeing trades or novating contracts.

C. Substitutability

The potential adverse systemic impact of a banking organization will depend in part on the degree to which other banking organizations are able to serve as substitutes for its role in the financial system in the event that the banking organization is unable to perform its role during times of financial stress. Under the proposal, three indicators would be used to measure substitutability: assets under custody as of December 31 of a given year, the total value of payments activity sent over the calendar year, and the total value of transactions in debt and equity markets underwritten during the calendar year. Relative to the other categories in the method 1 surcharge, the substitutability category has a greater-than-intended impact on the assessment of systemic importance for certain banking organizations that are dominant in the provision of asset custody, payment systems, and underwriting services. The Board is therefore proposing to cap the maximum score for the substitutability category at 500 basis points (or 100 basis points, after the 20 percent weighting factor is applied) so that the substitutability category does not have a greater than intended impact on a bank holding company's global systemic score.⁴³ This proposed cap is also consistent with the approach taken in the BCBS framework. The following discusses how each of the three substitutability indicators would be measured and reported on the FR Y-15.

1. Assets under custody. The collapse of a GSIB that holds assets on behalf of customers, particularly other financial firms, could severely disrupt financial markets and have serious consequences for the domestic and global economies. The proposal would measure assets under custody as the aggregate value of assets that a bank holding company

⁴³ See paragraph 19 of the BCBS Revised Document.

holds as a custodian. For purposes of the proposal, a custodian would be defined as a banking organization that manages or administers the custody or safekeeping of stocks, debt securities, or other assets for institutional and private investors.

2. Payments activity. The collapse of a GSIB that processes a large volume of payments is likely to affect a large number of customers, including financial, non-financial, and retail customers. In the event of collapse, these customers may be unable to process payments and could experience liquidity issues as a result. Additionally, if failure (meaning the inability to operate properly in the payment system) occurred while the banking organization was in a net positive liquidity position, those funds could become inaccessible to the recipients.

The proposal would use a bank holding company's share of payments made through large-value payment systems and through agent banks as an indicator of the company's degree of systemic importance within the context of substitutability. Specifically, payments activity would be the value of all cash payments sent via large-value payment systems, along with the value of all cash payments sent through an agent (e.g., using a correspondent or nostro account), over the calendar year in the currencies specified on the FR Y-15.

3. Underwritten transactions in debt and equity markets. The failure of a GSIB with a large share of the global market's debt and equity underwriting could impede new securities issuances and potentially increase the cost of debt and capital. In order to assess a bank holding company's significance in underwriting as compared to its peers, the proposal would measure underwriting activity as the aggregate value of equity and debt underwriting

transactions of a banking organization, conducted over the calendar year, as specified on the FR Y-15.

D. Complexity

The global systemic impact of a banking organization's failure or distress is positively correlated to that organization's business, operational, and structural complexity. Generally, the more complex a banking organization is, the greater the expense and time necessary to resolve it. Costly resolutions can have negative cascading effects in the markets, including disorderly unwinding of positions, fire-sales of assets, disruption of services to customers, and increased uncertainty in the markets.

As reflected in the FR Y-15, the proposal would include three indicators of complexity: notional amount of OTC derivatives, Level 3 assets, and trading and AFS securities as of December 31 of a given year. The indicators would be measured as follows:

1. Notional amount of OTC derivatives. A bank holding company's OTC derivatives activity would be the aggregate notional amount of the bank holding company's OTC derivative transactions that are cleared through a central counterparty or settled bilaterally.
2. Level 3 assets. Level 3 assets would be equal to the value of the assets that the bank holding company measures at fair value for purposes of its FR Y-9C quarterly report (Schedule HC-Q, column E). These are generally illiquid assets with fair values that cannot be determined by observable data, such as market price signals or models. Instead, the value of the level 3 assets is calculated based on internal estimates or risk-adjusted value ranges by the banking organization. Firms with high levels of level 3 assets would be difficult to value

in times of stress, thereby negatively affecting market confidence in such firms and creating the potential for a disorderly resolution process.

3. Trading and AFS securities. A banking organization's trading and AFS securities can cause a market disturbance through mark-to-market losses and fire sales of assets in times of distress. Specifically, a banking organization's write-down or sales of securities could drive down the prices of these securities, which could cause a spill-over effect that forces other holders of the same securities to experience mark-to-market losses. Accordingly, the proposal would consider a bank holding company's trading and AFS securities as an indicator of complexity.

Question 24. Do the three indicators (notional amount of OTC derivatives transactions, Level 3 assets, and trading and AFS securities) appropriately reflect a bank holding company's complexity? What alternative or additional indicators might better reflect complexity and global systemic importance?

Question 25. What, if any, other financial instruments should be measured by the trading and AFS securities systemic indicator and why?

E. Cross-jurisdictional Activity

Banking organizations with a large global presence are more difficult and costly to resolve than purely domestic institutions. Specifically, the greater the number of jurisdictions in which a firm operates, the more difficult it would be to coordinate its resolution and the more widespread the spillover effects were it to fail. Under the proposal, the two indicators included in this category – cross-jurisdictional claims and cross-jurisdictional liabilities – would measure a bank holding company's global reach by

considering its activity outside its home jurisdiction as compared to the cross-jurisdictional activity of its peers. In particular, claims would include deposits and balances placed with other banking organizations, loans and advances to banking organizations and non-banks, and holdings of securities. Liabilities would include the liabilities of all offices of the same banking organization (headquarters as well as branches and subsidiaries in different jurisdictions) to entities outside of its home market.

Question 26. Are there any other specific metrics that should be used to ensure that a bank holding company's cross-jurisdictional reach is adequately measured? Should there be any modifications to the cross-jurisdictional indicators that have been proposed?

F. Use of Short-term Wholesale Funding

As described in section II.C.2 of this preamble, the proposal incorporates a measure of short-term wholesale funding use in order to address the risks presented by those funding sources.

To determine its method 2 surcharge under the proposal, a GSIB would be required to compute its short-term wholesale funding score. As a first step in doing so, a GSIB would determine, on a consolidated basis, the amount of its short-term wholesale funding sources with a remaining maturity of less than one year for each business day of the preceding calendar year. Under the proposal, components of a GSIB's short-term wholesale funding amount would generally be defined using terminology from the LCR rule and aligned with items that are reported on the Board's Complex Institution Liquidity Monitoring Report on Form FR 2052a. In identifying items for inclusion in short-term wholesale funding, the proposal focuses on those sources that give rise to the greatest risk of creditor runs and

associated systemic externalities. Specifically, a GSIB's short-term wholesale funding amount would include the following:

- All funds that the GSIB must pay under each secured funding transaction, other than an operational deposit, with a remaining maturity of one year or less;
- All funds that the GSIB must pay under each unsecured wholesale funding transaction, other than an operational deposit, with a remaining maturity of one year or less;
- The fair market value of all assets that the GSIB must return in connection with transactions where it has provided a non-cash asset of a given liquidity category to a counterparty in exchange for non-cash assets of a higher liquidity category, and the GSIB and the counterparty agreed to return the assets to each other at a future date (covered asset exchange);
- The fair market value of all assets that the GSIB must return under transactions where it has borrowed or otherwise obtained a security which it has sold (short positions); and
- All brokered deposits and all brokered sweep deposits held at the GSIB provided by a retail customer or counterparty.

The proposal would align the definition of a "secured funding transaction" with the definition of that term in the LCR rule. As such, it would include repurchase transactions, securities lending transactions, secured funding from a Federal Reserve Bank or other foreign central bank, Federal Home Loan Bank advances, secured deposits, loans of collateral to effect customer short positions, and other secured wholesale funding arrangements. These

funding sources are treated as short-term wholesale funding, provided that they have a remaining maturity of less than one year, as such funding generally gives rise to cash outflows during periods of stress because counterparties are more likely to abruptly remove or cease to roll-over secured funding transactions as compared to longer-term funding.

The proposal would also align the definition of “unsecured wholesale funding” with the definition of that term in the LCR rule. Such funding typically includes: wholesale deposits; federal funds purchased; unsecured advances from a public sector entity, sovereign entity, or U.S. government sponsored enterprise; unsecured notes; bonds, or other unsecured debt securities issued by a GSIB (unless sold exclusively to retail customers or counterparties), brokered deposits from non-retail customers; and any other transaction where an on-balance sheet unsecured credit obligation has been contracted. As evidenced in the financial crisis, funding from wholesale counterparties presents greater run risk to banking organizations during periods of stress as compared to the same type of funding provided by retail counterparties. Unsecured wholesale funding has exhibited a potential to be withdrawn in large amounts by wholesale counterparties seeking to meet their financial obligations when facing financial distress. The proposal would include in short-term wholesale funding unsecured wholesale funding that is partially or fully covered by deposit insurance, as such funding poses run risks even when deposit insurance is present. The proposal would not reflect offsetting amounts from the release of assets held in segregated accounts in connection with wholesale deposits included in a GSIB’s short-term wholesale funding amount.

The proposed definition of short-term wholesale funding also would include the fair market value of all assets that a GSIB must return in connection with transactions where it has provided a non-cash asset of a given liquidity category to a counterparty in exchange for non-cash assets of a higher liquidity category, and the GSIB and the counterparty agreed to return the assets to each other at a future date. The unwinding of such transactions could negatively impact a GSIB's funding profile in times of stress to the extent that the unwinding requires the GSIB to obtain funding for a less liquid asset or security or because the counterparty is unwilling to roll over the transaction. The proposed definition also includes the fair market value of all assets a GSIB must return under transactions where it has borrowed or otherwise obtained a security which it has sold. If the transaction in which the GSIB borrows or obtains the security closes out, then the GSIB would be required to fund a repurchase or otherwise obtain the security, which may impact the GSIB's funding profile.

The proposal would characterize retail brokered deposits and brokered sweep deposits as short-term wholesale funding because these forms of funding have demonstrated significant volatility in times of stress, notwithstanding the presence of deposit insurance. These types of deposits can be easily moved from one institution to another during times of stress, as customers and counterparties seek higher interest rates or seek to use those funds for other purposes and on account of the incentives that third-party brokers have to provide the highest possible returns for their clients. However, the proposed definition of short-term funding would exclude deposits from retail customers and counterparties that are not brokered deposits or brokered sweep deposits, as these deposits are less likely to pose liquidity risks in times of stress.

The proposed definition of short-term wholesale funding would exclude operational deposits from secured funding transactions and unsecured wholesale funding. Operational deposits would be defined consistent with the LCR rule as deposits required for the provision of operational services by a banking organization to its customers, which can include services related to clearing, custody, and cash management. Because these deposits are tied to the provision of specific services to customers, these funding sources present less short-term liquidity risk during times of stress. Under the LCR rule, such deposits are required to be tied to operational services agreements that have a minimum 30-day termination period or are the subject of significant termination or switching costs.

As an alternative proposal, the Board is proposing to treat operational deposits as short-term wholesale funding for the purposes of the method 2 surcharge and to weight these deposits at 25 percent (which, as described below, is the same weighting applied to secured funding transactions secured by a level 1 liquid asset). To the extent that a firm suffers operational deposit outflows, the firm will generally need to liquidate assets to meet the large deposit outflows. These assets may include securities or short-term loans to other financial institutions, and the rapid liquidation of such assets may have an adverse impact on financial stability.

Question 27. How should the measure of short-term wholesale funding amount reflect operational deposits? If these are included in the measure of short-term wholesale funding amount, how should operational deposits be weighted?

In addition, the GSIB's short-term wholesale funding amount would not reflect liquidity risks from derivatives transactions. In particular, a GSIB's short-term wholesale

funding amount would not reflect the potential need for a firm to post incremental cash or securities as margin for derivatives transactions that move in a counterparty's favor, nor would the short-term wholesale funding amount recognize the possibility that a GSIB may lose the ability to rehypothecate collateral it has received in connection with its derivatives transactions. While each of these scenarios could present liquidity risk to the firm, it is arguable that such liquidity risks are more appropriately considered under the liquidity regulatory framework.

However, as an alternative proposal, the Board is proposing that the definition of short term wholesale funding include exposures attributable to derivatives transactions, in particular, in cases where the firm has the ability to rehypothecate collateral received in connection with derivative transactions. Under this alternative proposal, the weighting of these exposures could be determined based on the counterparty or type of derivative transaction.

Question 28. How should the measure of short-term wholesale funding amount reflect exposures for derivatives transactions, in particular, in cases where the firm has the ability to rehypothecate collateral received in connection with derivative transactions? If derivatives exposures are included in the measure of short-term wholesale funding amount, how should they be weighted?

The GSIB's short-term wholesale funding amount would not reflect any exposures that arise from sponsoring a structured transaction where the issuing entity is not consolidated on the GSIB's balance sheet under GAAP. Such treatment, however, may be at odds with the support that some companies provided during the financial crisis to the funds

they advised and sponsored. For example, many money market mutual fund sponsors, including banking organizations, supported their money market mutual funds during the crisis in order to enable those funds to meet investor redemption requests without having to sell assets into then-fragile and illiquid markets. For these reasons, as an alternative proposal, the Board is proposing to adjust the definition of short-term wholesale funding to include exposures arising from sponsoring a structured transaction. Under this alternative proposal, the weighting of these exposures would be determined based on the liquidity characteristics of the assets of the issuing entity.

Question 29. How should the measure of short-term wholesale funding amount reflect exposures for structured transactions? If these exposures are included in the measure of short-term wholesale funding amount, how should they be weighted?

After a GSIB has identified the short-term wholesale funding sources specified above, the GSIB would apply a weighting system that is designed to take account of the varying levels of systemic risk associated with the different funding sources comprising its short-term wholesale funding amount. The weighting system generally would focus on the remaining maturity of a short-term wholesale funding source and the asset class of any collateral backing the source, each of which is captured on the FR 2052a. A GSIB would be required to categorize the sources that comprise its short-term wholesale funding amount into one of four remaining maturity buckets (under 30 days (which would include short-term wholesale funding sources with no maturity date), 31 to 90 days, 91 to 180 days, and 181 to 365 days), and to distinguish between certain of those sources based on whether they are backed by level 1 liquid assets, level 2A liquid assets, or level 2B liquid assets, each as defined in the

Board’s LCR rule. To determine the remaining maturity of a short-term wholesale funding source, a GSIB would be required to assume that a short-term wholesale funding source matures in accordance with the LCR rule’s provisions for determining maturity, including the provisions for determining the maturity of transactions with no maturity date. In general, the proposed weights would progressively decrease as the remaining maturity of a funding transaction increases, and would progressively increase as the quality of the collateral securing a funding transaction decreases.

Table 8 below sets forth the proposed weights for each component of short-term wholesale funding.

Table 8: Short-Term Wholesale Funding Weighting

Component of short-term wholesale funding	Remaining Maturity of 30 days of less	Remaining Maturity of 31 to 90 days	Remaining Maturity of 91 to 180 days	Remaining Maturity of 181 to 365 days
Secured funding transaction secured by a level 1 liquid asset	25 percent	10 percent	0 percent	0 percent
(1) Secured funding transaction secured by a level 2A liquid asset; (2) Unsecured wholesale funding where the customer or counterparty is not a financial sector entity or a consolidated subsidiary of a financial sector entity; and (3) Brokered deposits and brokered sweep deposits provided by a retail customer or counterparty; and	50 percent	25 percent	10 percent	0 percent

<p>(4) Covered asset exchanges involving the future exchange of a level 1 liquid asset for a level 2A liquid asset; and</p> <p>(5) Short positions where the borrowed security is either a level 1 or level 2A liquid asset</p>				
<p>(1) Secured funding transaction secured by a level 2B liquid asset; and</p> <p>(2) Covered asset exchanges and short positions (other than those described above)</p>	75 percent	50 percent	25 percent	10 percent
<p>(1) Unsecured wholesale funding where the customer or counterparty is a financial sector entity or a consolidated subsidiary thereof; and</p> <p>(2) Any other component of short-term wholesale funding</p>	100 percent	75 percent	50 percent	25 percent

As noted above, a GSIB's short-term wholesale funding amount would be determined by calculating its short-term wholesale funding amount for each business day over the prior calendar year, applying the appropriate weighting as set forth in Table 8 by short-term wholesale funding source and remaining maturity, and averaging this amount over the prior calendar year. Consideration of a GSIB's weighted short-term wholesale funding amount as a yearly average is intended to reduce the extent to which daily or monthly volatility in a firm's use of short-term wholesale funding could affect the firm's method 2 surcharge level. Using a yearly average of a firm's daily short-term wholesale funding use to determine the

weighted short-term wholesale funding amount is intended to strike an appropriate balance between generating an accurate depiction of a GSIB's short-term wholesale funding use and operational complexity.

Question 30. What, if any, additional or alternative items should be considered in determining a GSIB's short-term wholesale funding amount? Should wholesale deposits included in a GSIB's unsecured wholesale funding reflect any offsetting amounts from the release of assets held in segregated accounts? Should brokered deposits and brokered sweep deposits provided by a retail customer or counterparty be excluded from a GSIB's short-term wholesale funding amount?

Question 31. What are commenters' views on the proposed method of weighting a GSIB's short-term wholesale funding amount?

After calculating its weighted short-term wholesale funding amount, the GSIB would divide its weighted short-term wholesale funding amount by its average risk-weighted assets, measured as the four-quarter average of the firm's total risk-weighted assets (e.g., standardized or advanced approaches) associated with the lower of its risk-based capital ratios as reported on its FR Y-9C for each quarter of the previous year. Consideration of a GSIB's short-term wholesale funding amount as a percentage of its average risk-weighted assets is an appropriate means of scaling in a firm-specific manner a firm's use of short-term wholesale funding. This reflects the view that the systemic risks associated with a firm's use of short-term wholesale funding are comparable regardless of the business model of the firm. More specifically, the use of short-term wholesale funding poses similar systemic risks regardless of whether short-term wholesale funding is used by a firm that is predominantly

engaged in trading operations as opposed to a firm that combines large trading operational with large commercial banking activities, and regardless of whether a firm uses short-term wholesale funding to fund securities inventory as opposed to securities financing transaction matched book activity. Dividing short-term wholesale funding by average risk-weighted assets helps ensure that two firms that use the same amount of short-term wholesale funding would be required to hold the same dollar amount of additional capital regardless of such differences.

To illustrate the rationale for dividing a GSIB's short-term wholesale funding by its average risk-weighted assets, assume that two GSIBs use the same amount of short-term wholesale funding, but the first GSIB has average risk-weighted assets of \$50, and the second GSIB has average risk-weighted assets of \$100. If method 2's short-term wholesale funding score were based on a GSIB's short-term wholesale funding amount instead of the ratio of short-term wholesale funding to average risk-weighted assets, the two GSIBs would have equal short-term wholesale funding scores, but the second GSIB would effectively be required to hold more capital than the first GSIB (given its higher risk-weighted assets) to avoid being subject to restrictions on capital distributions and certain discretionary bonus payments as a result of its use of short-term wholesale funding. By contrast, if the surcharge formula were based on the ratio of the short-term wholesale funding amount to average risk-weighted assets, the first GSIB would have a higher short-term wholesale funding score, but the two GSIBs would be required to hold similar amounts of capital as a result of short-term wholesale funding. While the latter approach better reflects the risk that the use of short-term wholesale funding poses to the GSIB, the Board is also proposing to measure a GSIB's

short-term wholesale funding amount as a dollar amount, rather than as a percentage of its average risk-weighted assets.

To arrive at its short-term wholesale funding score, a GSIB would multiply the ratio of its weighted short-term wholesale funding amount over its average risk-weighted assets by a fixed conversion factor (175). The conversion factor accounts for the fact that, in contrast to the other systemic indicators that comprise a GSIB's method 2 score, the short-term wholesale funding score does not have an associated aggregate global indicator; and is intended to weight the short-term wholesale funding amount such that the short-term wholesale funding score accounts for approximately 20 percent of the method 2 score, thereby weighting short-term wholesale funding approximately the same as the other systemic indicators within method 2, based upon estimates of current levels of short-term wholesale funding at the eight bank holding companies currently identified as GSIBs.

This fixed conversion factor was developed using 2013 and 2014 data on short-term wholesale funding sources from the FR 2052a for the eight firms currently identified as GSIBs under the proposed methodology, average risk-weighted assets as of 2013, and the year-end 2013 aggregate global indicator amounts for the size, interconnectedness, complexity, and cross-jurisdictional activity systemic indicators. Using this data, the total weighted basis points for the size, interconnectedness, complexity, and cross-jurisdictional activity systemic indicator scores for the firms currently identified as GSIBs were calculated. Given that this figure is intended to comprise 80 percent of the method 2 score, the weighted basis points accounting for the remaining 20 percent of the method 2 score were determined. The aggregate estimated short-term wholesale funding amount over average risk-weighted

assets for the firms currently identified as GSIBs and the total weighted basis points that would equate to 20 percent of a firm's method 2 score were used to determine the fixed conversion factor.

A fixed conversion factor is intended to facilitate one of the goals of the incorporation of short-term wholesale funding into the GSIB surcharge framework, which is to provide incentives for GSIBs to decrease their use of this less stable form of funding. To the extent that a GSIB reduces its use of short-term wholesale funding, its short-term wholesale funding score will decline, even if GSIBs in the aggregate reduce their use of short-term wholesale funding. As noted in section II.G above, to the extent that GSIBs' use of short-term wholesale funding and the aggregate global indicator amounts change over time, the Board will continue to evaluate whether the proposed method achieves the goals of the proposal.

Given that the short-term wholesale funding score does not have an associated aggregate global indicator amount, the Board proposes that the ratio of a GSIB's weighted short-term wholesale funding amount to its average risk-weighted assets serve as an alternative means of scaling its short-term wholesale funding amount.

Question 32. What are commenters' views on the proposed method of determining a GSIB's short-term wholesale funding score? What other specific approaches should be used to ensure that a GSIB's reliance on short-term wholesale funding is adequately measured? Should a GSIB calculate its short-term wholesale funding score with or without reference to average risk-weighted assets? For example, should the Board consider an approach similar to the BCBS global framework whereby a GSIB's short-term wholesale funding amount would be considered as against the aggregate short-term wholesale funding amount for all

GSIBs? What approach would be most consistent with the Board's view that the financial stability risks associated with short-term wholesale funding are generally comparable regardless of a firm's average risk-weighted assets?

Question 33. What are commenters' views regarding the use of a fixed conversion factor to determine a GSIB's short-term wholesale funding score? Should the Board consider using a conversion factor that would, like the aggregate global systemic indicators, change on an annual basis?

IV. Amendments to the FR Y-15

In the near future, the Board intends to propose modifications to the FR Y-15 to include disclosure of bank holding companies' systemic indicator scores and information pertaining to GSIBs' short-term wholesale funding scores, as calculated under the proposal. Until those reporting form changes are proposed and finalized, the Board anticipates that bank holding companies would collect and retain data necessary to determine their short-term wholesale funding scores.

V. Modifications to Related Rules

The Board, along with the FDIC and the OCC, recently issued a final rule imposing enhanced supplementary leverage ratio standards on certain bank holding companies and their subsidiary insured depository institutions.⁴⁴ The enhanced supplementary leverage ratio standards applied to top-tier U.S. bank holding companies with more than \$700 billion in total consolidated assets or more than \$10 trillion in assets under custody (covered BHCs), as well as insured depository institution subsidiaries of the covered BHCs. The enhanced

⁴⁴ 78 FR 24528 (May 1, 2014).

standards imposed a 2 percent leverage ratio buffer similar to the capital conservation buffer above the minimum supplementary leverage ratio requirement of 3 percent on the covered BHCs, and also required insured depository institution subsidiaries of covered BHCs to maintain a supplementary leverage ratio of at least 6 percent to be well capitalized under the prompt corrective action framework.

In connection with this proposal, the Board is proposing to revise the terminology used to identify the firms subject to the enhanced supplementary leverage ratio standards to reflect the proposed GSIB surcharge framework. Specifically, the Board is proposing to replace the use of “covered BHC” with firms identified as GSIBs using the methodology of this proposal within the prompt corrective action provisions of Regulation H (12 CFR part 208), as well as within the Board’s regulatory capital rule. The eight U.S. top-tier bank holding companies that are “covered BHCs” under the enhanced supplementary leverage ratio rule’s definition are the same eight U.S. top-tier bank holding companies that would be identified as GSIBs under this proposal. These changes would simplify the Board’s regulations by removing overlapping definitions, and would not result in a material change in the provisions applicable to these bank holding companies.

VI. Regulatory Analysis

A. Paperwork Reduction Act (PRA)

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3506; 5 CFR part 1320, Appendix A.1), the Board reviewed the proposed rule under the authority delegated to the Board by the Office of Management and Budget. For purposes of calculating burden under the Paperwork Reduction Act, a “collection of information”

involves 10 or more respondents. Any collection of information addressed to all or a substantial majority of an industry is presumed to involve 10 or more respondents (5 CFR 1320.3(c), 1320.3(c)(4)(ii)). The Board estimates there are fewer than 10 respondents, and these respondents do not represent all or a substantial majority of U.S. top-tier bank holding companies. Therefore, no collections of information pursuant to the Paperwork Reduction Act are contained in the proposed rule.

B. Regulatory Flexibility Act Analysis

The Board is providing an initial regulatory flexibility analysis with respect to this proposed rule. As discussed above, this proposed rule is designed to identify U.S. bank holding companies that are GSIBs and to apply capital surcharges to the GSIBs that are calibrated to their systemic risk profiles. The Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.* (RFA), generally requires that an agency prepare and make available an initial regulatory flexibility analysis in connection with a notice of proposed rulemaking. Under regulations issued by the Small Business Administration, a small entity includes a bank holding company with assets of \$550 million or less (small bank holding company).⁴⁵ As of June 30, 2014, there were approximately 3,718 small bank holding companies.

The proposed rule would only apply to top-tier bank holding company domiciled in the United States with \$50 billion or more in total consolidated assets that is not a subsidiary of a non-U.S. banking organization. Bank holding companies that are subject to the

⁴⁵ See 13 CFR 121.201. Effective July 14, 2014, the Small Business Administration revised the size standards for banking organizations to \$550 million in assets from \$500 million in assets. 79 FR 33647 (June 12, 2014).

proposed rule therefore substantially exceed the \$550 million asset threshold at which a banking entity would qualify as a small bank holding company.

Because the proposed rule would not apply to a bank holding company with assets of \$550 million or less, if adopted in final form, it would not apply to any small bank holding company for purposes of the RFA. Therefore, there are no significant alternatives to the proposed rule that would have less economic impact on small bank holding companies. As discussed above, the projected reporting, recordkeeping, and other compliance requirements of the proposed rule are expected to be small. The Board does not believe that the proposed rule duplicates, overlaps, or conflicts with any other Federal rules. In light of the foregoing, the Board does not believe that the proposed rule, if adopted in final form, would have a significant economic impact on a substantial number of small entities. Nonetheless, the Board seeks comment on whether the proposed rule would impose undue burdens on, or have unintended consequences for, small organizations, and whether there are ways such potential burdens or consequences could be minimized in a manner consistent with the purpose of the proposed rule. A final regulatory flexibility analysis will be conducted after consideration of comments received during the public comment period.

C. Plain Language

Section 722 of the Gramm-Leach-Bliley Act requires the Board to use plain language in all proposed and final rules published after January 1, 2000. The Board has sought to present the proposed rule in a simple straightforward manner, and invite comment on the use of plain language. For example:

- Have the agencies organized the material to suit your needs? If not, how could they present the proposed rule more clearly?
- Are the requirements in the proposed rule clearly stated? If not, how could the proposed rule 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?
- Is the section format adequate? If not, which of the sections should be changed and how?
- What other changes can the Board incorporate to make the regulation easier to understand?

List of Subjects

12 CFR Part 208

Accounting, Agriculture, Banks, banking, Confidential business information, Consumer protection, Crime, Currency, Global systemically important bank, Insurance, Investments, Mortgages Reporting and recordkeeping requirements, Securities

Board of Governors or the Federal Reserve System

12 CFR CHAPTER II

Authority and Issuance

For the reasons set forth in the preamble, chapter II of title of the Code of Federal Regulations is proposed to be amended as follows:

PART 208 – MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM (REGULATION H)

1. The authority citation for part 208 continues to read as follows:

Authority: 12 U.S.C. 24, 36, 92a, 93a, 248(a), 248(c), 321-338a, 371d, 461, 481-486, 601, 611, 1814, 1816, 1818, 1820(d)(9), 1833(j), 1828(o), 1831, 1831o, 1831p-1, 1831r-1, 1831w, 1831x, 1835a, 1882, 2901-2907, 3105, 3310, 3331-3351, 3905-3909, and 5371; 15 U.S.C. 78b, 78I(b), 78l(i), 780-4(c)(5), 78q, 78q-1, and 78w, 1681s, 1681w, 6801, and 6805; 31 U.S.C. 5318; 42 U.S.C. 4012a, 4104a, 4104b, 4106 and 4128.

2. In § 208.41 remove the definition of “covered BHC” as added on May 1, 2014 (79 FR 24540), effective January 1, 2018, and add in its place the definition of “global systemically important BHC,” to read as follows:

§ 208.41 Definitions for purposes of this subpart.

Global systemically important BHC has the same meaning as in § 217.2 of Regulation Q (12 CFR 217.2).

3. In § 208.43 revise paragraphs (a)(2)(iv)(C) and (c)(1)(iv), as added on May 1, 2014 (79 FR 24540) effective January 1, 2018, by removing the words “covered BHC” and adding in their place the words “global systemically important BHC”

**PART 217 – CAPITAL ADEQUACY OF BANK HOLDING COMPANIES, SAVINGS
AND LOAN HOLDING COMPANIES, AND STATE MEMBER BANKS**

(REGULATION Q)

4. 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.

5. Revise § 217.1 paragraph (f)(3) to read as follows:

Subpart A – General Provisions

§ 217.1 Purpose, applicability, reservations of authority, and timing.

* * * * *

(f) Timing.

* * * * *

(3) Beginning on January 1, 2016, and subject to the transition provisions in subpart G of this part, a Board-regulated institution is subject to limitations on distributions and discretionary bonus payments with respect to its capital conservation buffer, any applicable countercyclical capital buffer amount, and any applicable GSIB surcharge, in accordance with subpart B of this part.

6. In § 217.1 revise paragraph (f)(4), as added on May 1, 2014 (79 FR 24540) effective January 1, 2018, by removing the words “covered BHC” and adding in its place the words “global systemically important BHC”

7. In § 217.2, remove the definition of “covered BHC” as added on May 1, 2014 (79 FR 24540), effective January 1, 2018, add in its place the definitions of “GSIB surcharge” and “global systemically important BHC” as follows:

Global systemically important BHC means a bank holding company that is identified as a global systemically important BHC pursuant to § 217.402.

GSIB surcharge means the capital surcharge applicable to a global systemically important BHC calculated pursuant to § 217.403.

8. In § 217.11 amend paragraphs (a)(2)(v) and (a)(2)(vi) and (c) and Table 2 by removing the words “covered BHC” added on May 1, 2014 (79 FR 24540) effective January 1, 2018, and adding in its place the words “global systemically important BHC.”

9. In § 217.11 revise paragraph (a)(4) to read as follows:

§ 217.11 Capital conservation buffer, countercyclical capital buffer amount, and GSIB surcharge.

* * * * *

(4) Limits on distributions and discretionary bonus payments.

* * * * *

(ii) A Board-regulated institution with a capital conservation buffer that is greater than 2.5 percent plus (A) 100 percent of its applicable countercyclical capital buffer in accordance with paragraph (b) of this section, and (B) 100 percent of its applicable GSIB surcharge, in accordance with paragraph (c) of this section, is not subject to a maximum payout amount under this section.

* * * * *

10. Amend Table 1 to § 217.11 as follows:

TABLE 1 TO §217.11 – CALCULATION OF MAXIMUM PAYOUT AMOUNT

Capital conservation buffer	Maximum payout ratio (as a percentage of eligible retained income)
Greater than 2.5 percent plus (A) 100 percent of the Board-regulated institution’s applicable countercyclical capital buffer amount and (B) 100 percent of the Board-regulated institution’s applicable GSIB surcharge	No payout ratio limitation applies
Less than or equal to 2.5 percent plus (A) 100 percent of the Board-regulated institution’s applicable countercyclical capital buffer amount and (B) 100 percent of the Board-regulated institution’s applicable GSIB surcharge, <u>and</u> greater than 1.875 percent plus (A) 75 percent of the Board-regulated institution’s applicable countercyclical capital buffer amount and (B) 75 percent of the Board-regulated institution’s applicable GSIB surcharge	60 percent
Less than or equal to 1.875 percent plus (A) 75 percent of the Board-regulated institution’s applicable countercyclical capital buffer amount and (B) 75 percent of the Board-regulated institution’s applicable GSIB surcharge, <u>and</u> greater than 1.25 percent plus	40 percent

(A) 50 percent of the Board-regulated institution's applicable countercyclical capital buffer amount and (B) 50 percent of the Board-regulated institution's applicable GSIB surcharge	
Less than or equal to 1.25 percent plus (A) 50 percent of the Board-regulated institution's applicable countercyclical capital buffer amount and (B) 50 percent of the Board-regulated institution's applicable GSIB surcharge, <u>and</u> greater than 0.625 percent plus (A) 25 percent of the Board-regulated institution's applicable countercyclical capital buffer amount and (B) 25 percent of the Board-regulated institution's applicable GSIB surcharge	20 percent
Less than or equal to 0.625 percent plus (A) 25 percent of the Board-regulated institution's applicable countercyclical capital buffer amount and (B) 25 percent of the Board-regulated institution's applicable GSIB surcharge	0 percent

11. Redesignate paragraph (c) added on May 1, 2014 (79 FR 24540) effective January 1, 2018, as paragraph (d).

12. Amend § 217.11 to add new paragraph (c) as follows:

(d) GSIB surcharge. A global systemically important BHC must use its GSIB surcharge calculated in accordance with subpart H of this part for purposes of determining its maximum payout ratio under Table 1 to §217.11.

13. Revise § 217.300 to read as follows:

§ __.300 Transitions.

(a) Capital conservation and countercyclical capital buffer and GSIB surcharge.

(1) From January 1, 2014 through December 31, 2015, a Board-regulated institution is not subject to limits on distributions and discretionary bonus payments under § 217.11 of subpart B of this part notwithstanding the amount of its capital conservation buffer or any applicable countercyclical capital buffer amount or GSIB surcharge.

(2) Notwithstanding § 217.11, beginning January 1, 2016 through December 31, 2018 a Board-regulated institution’s maximum payout ratio shall be determined as set forth in Table 1 to §217.300.

TABLE 1 TO §217.300

Transition Period	Capital conservation buffer	Maximum payout ratio (as a percentage of eligible retained income)
Calendar year 2016	Greater than 0.625 percent (plus (A) 25 percent of any applicable countercyclical capital buffer amount and (B) 25 percent of any applicable GSIB surcharge)	No payout ratio limitation applies under this section
	Less than or equal to 0.625 percent (plus (A) 25 percent of any applicable countercyclical capital buffer amount and (B) 25 percent of any applicable GSIB surcharge), and greater than 0.469 percent (plus (A) 17.25 percent of any applicable countercyclical capital buffer amount and	60 percent

	(B) 17.25 percent of any applicable GSIB surcharge)	
	Less than or equal to 0.469 percent (plus (A) 17.25 percent of any applicable countercyclical capital buffer amount and (B) 17.25 percent of any applicable GSIB surcharge), and greater than 0.313 percent (plus (A) 12.5 percent of any applicable countercyclical capital buffer amount and (B) 12.5 percent of any applicable GSIB surcharge)	40 percent
	Less than or equal to 0.313 percent (plus (A) 12.5 percent of any applicable countercyclical capital buffer amount and (B) 12.5 percent of any applicable GSIB surcharge), and greater than 0.156 percent (plus (A) 6.25 percent of any applicable countercyclical capital buffer amount and (B) 6.25 percent of any applicable GSIB surcharge)	20 percent
	Less than or equal to 0.156 percent (plus (A) 6.25 percent of any applicable countercyclical capital buffer amount and (B) 6.25 percent of any applicable GSIB surcharge)	0 percent
Calendar year 2017	Greater than 1.25 percent (plus (A) 50 percent of any applicable countercyclical capital buffer amount and (B) 50 percent of any applicable GSIB surcharge)	No payout ratio limitation applies under this section
	Less than or equal to 1.25 percent (plus (A) 50 percent of any applicable countercyclical capital buffer amount and (B) 50 percent of any applicable GSIB surcharge), and greater than 0.938 percent (plus (A) 37.5 percent of any applicable countercyclical capital buffer amount and (B) 37.5 percent of any applicable GSIB surcharge)	60 percent

	Less than or equal to 0.938 percent (plus (A) 37.5 percent of any applicable countercyclical capital buffer amount and (B) 37.5 percent of any applicable GSIB surcharge), and greater than 0.625 percent (plus (A) 25 percent of any applicable countercyclical capital buffer amount and (B) 25 percent of any applicable GSIB surcharge)	40 percent
	Less than or equal to 0.625 percent (plus (A) 25 percent of any applicable countercyclical capital buffer amount and (B) 25 percent of any applicable GSIB surcharge), and greater than 0.313 percent (plus (A) 12.5 percent of any applicable countercyclical capital buffer amount and (B) 12.5 percent of any applicable GSIB surcharge)	20 percent
	Less than or equal to 0.313 percent (plus (A) 12.5 percent of any applicable countercyclical capital buffer amount and (B) 12.5 percent of any applicable GSIB surcharge)	0 percent
Calendar year 2018	Greater than 1.875 percent (plus (A) 75 percent of any applicable countercyclical capital buffer amount and (B) 75 percent of any applicable GSIB surcharge)	No payout ratio limitation applies under this section
	Less than or equal to 1.875 percent (plus (A) 75 percent of any applicable countercyclical capital buffer amount and (B) 75 percent of any applicable GSIB surcharge), and greater than 1.406 percent (plus (A) 56.25 percent of any applicable countercyclical capital buffer amount and (B) 56.25 percent of any applicable GSIB surcharge)	60 percent
	Less than or equal to 1.406 percent (plus (A) 56.25 percent of any applicable countercyclical capital buffer amount and (B) 56.25 percent of any applicable GSIB surcharge)	40 percent

	surcharge), and greater than 0.938 percent (plus (A) 37.5 percent of any applicable countercyclical capital buffer amount and (B) 37.5 percent of any applicable GSIB surcharge)	
	Less than or equal to 0.938 percent (plus (A) 37.5 percent of any applicable countercyclical capital buffer amount and (B) 37.5 percent of any applicable GSIB surcharge), and greater than 0.469 percent (plus (A) 18.75 percent of any applicable countercyclical capital buffer amount and (B) 18.75 percent of any applicable GSIB surcharge)	20 percent
	Less than or equal to 0.469 percent (plus (A) 18.75 percent of any applicable countercyclical capital buffer amount and (B) 18.75 percent of any applicable GSIB surcharge)	0 percent

14. Add subpart H to part 217 to read as follows:

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

General Provisions

- 217.400 Purpose and applicability
- 217.401 Definitions
- 217.402 Identification as a global systemically important bank holding company
- 217.403 GSIB surcharge

Authority: 12 U.S.C. 5365

GENERAL PROVISIONS

§ 217.400 Purpose and applicability.

(a) Purpose. This subpart implements certain provisions of section 165 of the Dodd-Frank Act (12 U.S.C. 5365), by establishing a risk-based capital surcharge for certain bank

holding companies that are not consolidated subsidiaries of a bank holding company or subsidiaries of a non-U.S. banking organization.

(b) Applicability.

(1) Application of the calculation requirements. Subject to the initial applicability provisions of paragraph (b)(3) of this section:

(i) A bank holding company must calculate its systemic indicator score pursuant to § 217.402 by December 31 of the year in which its total consolidated assets first equal or exceed \$50 billion if it:

(A) Has total consolidated assets of \$50 billion or more as of June 30 of that year, as reported on its FR Y-9C; and

(B) Is not a consolidated subsidiary of a bank holding company or a subsidiary of a non-U.S. banking organization; and

(ii) A bank holding company described in paragraph (b)(1)(i) of this section that is identified as a global systemically important BHC pursuant to § 217.402(a) must calculate its GSIB surcharge by December 31 of the year in which the bank holding company is identified as a global systemically important BHC.

(2) Applicability of the GSIB surcharge and any adjustments thereto. (i) First GSIB surcharge. Subject to the transition provisions of § 217.300(a) and the initial applicability provisions of paragraph (b)(3) of this section, a global systemically important BHC must use its GSIB surcharge (as calculated in the first year that the bank holding company was identified as a global systemically important BHC) for purposes of determining its maximum payout ratio under

Table 1 to § 217.11 beginning on the January 1 of the year that is one full calendar year after it is identified as a global systemically important BHC.

(ii) Increase in GSIB surcharge. To the extent that a global systemically important BHC's GSIB surcharge increases relative to its GSIB surcharge in effect for the current year, the global systemically important BHC must determine the maximum payout ratio under Table 1 to § 217.11:

(A) Using the current year's GSIB surcharge through December 31 of the following the calendar year; and

(B) Using the increased GSIB surcharge beginning on January 1 of the year that is one full calendar year after the increased GSIB surcharge was calculated.

(iii) Decrease in GSIB surcharge. To the extent that a global systemically important BHC's GSIB surcharge decreases relative to the surcharge in effect for the current year, the global systemically important BHC must determine the maximum payout ratio required under Table 1 to § 217.11 using the decreased surcharge beginning on January 1 of the immediately following calendar year.

(3) Initial applicability of the calculation and surcharge requirements.

(i) A bank holding company must calculate its systemic indicator score pursuant to § 217.402 by December 31, 2015 if it:

(A) Had total consolidated assets of \$50 billion or more as of June 30, 2014 as reported on the FR Y-9C, and

(B) Is not a consolidated subsidiary of a bank holding company or a subsidiary of a non-U.S. banking organization.

(ii) A bank holding company described in (b)(3)(i) of this section that is identified as a global systemically important BHC pursuant to § 217.402(a) by December 31, 2015, must calculate its GSIB surcharge by December 31, 2015, provided that:

(A) For the GSIB surcharge calculated by December 31, 2015, a bank holding company must calculate its weighted short-term wholesale funding amount (defined in § 217.403(c)) based on the average of its short-term wholesale funding amount calculated for each business day of the third quarter of 2015, divided by the bank holding company's average risk-weighted assets calculated for each business day of the third quarter of 2015; and multiplied by 175;

(B) For the GSIB surcharge calculated by December 31, 2016, the bank holding company must calculate its weighted short-term wholesale funding amount (defined in § 217.403(c)) based on the average of its short-term wholesale funding amount calculated for each business day of the third and fourth quarters of 2015, divided by the bank holding company's average risk-weighted assets for each business day of the third and fourth quarters of 2015; and multiplied by 175; and

(C) For the GSIB surcharge calculated by December 31, 2017, and thereafter, the bank holding company must calculate its weighted short-term wholesale funding amount (defined in § 217.403(c)) based on the average of its short-term wholesale funding amount calculated for each business day of the previous calendar year.

(iii) Subject to the transition provisions of § 217.300(a):

(A) A bank holding company that is identified as a global systemically important BHC pursuant to § 217.402(a) by December 31, 2015, must use its GSIB surcharge for purposes of determining its maximum payout ratio under Table 1 to § 217.11 beginning on January 1, 2016;

(B) The GSIB surcharge that the bank holding company initially uses to determine its maximum payout ratio under Table 1 to § 217.11 is the surcharge that the bank holding company calculated by December 31, 2015; and

(C) The surcharge that the bank holding company uses to determine its maximum payout ratio under Table 1 to § 217.11 for each year following is determined in accordance with paragraph (b)(2) of this section.

(c) Reservation of authority. (i) The Board may apply this subpart to any Board-regulated institution, in whole or in part, by order of the Board based on the institution's size, level of complexity, risk profile, scope of operations, or financial condition.

(ii) The Board may adjust the amount of the GSIB surcharge applicable to a global systemically important BHC, or extend or accelerate any compliance date of this subpart, if the Board determines that the adjustment, extension, or acceleration is appropriate in light of the capital structure, size, complexity, risk profile, and scope of operations of the global systemically important BHC. In increasing the size of the GSIB surcharge for a global systemically important BHC, the Board will apply notice and response procedures in 12 CFR 263.202.

§ 217.401 Definitions.

As used in this subpart:

(a) Aggregate global indicator amount means, for each systemic indicator, the annual dollar figure published by the Board that represents the sum of the systemic indicator scores of:

(i) the 75 largest global banking organizations, as measured by the Basel Committee on Banking Supervision, and (ii) any other banking organization that the Basel Committee on Banking Supervision includes in its sample total for that year.

(b) Assets under custody means assets held as a custodian on behalf of customers, as reported by a bank holding company on the FR Y-15.

(c) Average risk-weighted assets means the four-quarter average of the measure of total risk-weighted assets associated with the lower of the bank holding company's common equity tier 1 risk-based capital ratios, as reported on the bank holding company's FR Y-9C for each quarter of the previous calendar year, as available.

(d) Cross-jurisdictional claims means foreign claims on an ultimate risk basis, as reported by a bank holding company on the FR Y-15.

(e) Cross-jurisdictional liabilities means total cross-jurisdictional liabilities, as reported by a bank holding company on the FR Y-15.

(f) Intra-financial system assets means total intra-financial system assets, as reported by a bank holding company on the FR Y-15.

(g) Intra-financial system liabilities means total intra-financial system liabilities, as reported by a bank holding company on the FR Y-15.

(h) Level 3 assets means assets valued using Level 3 measurement inputs, as reported by a bank holding company on the FR Y-15.

(i) Notional amount of over-the-counter (OTC) derivatives means the total notional amount of OTC derivatives as reported by a bank holding company on the FR Y-15.

(j) Payments activity means payments activity as reported by a bank holding company on the FR Y-15.

(k) Securities outstanding means total securities outstanding as reported by a bank holding company on the FR Y-15.

(l) Systemic indicator means any of the following indicators included on the FR Y-15:

- (1) Total exposures;
- (2) Intra-financial system assets;
- (3) Intra-financial system liabilities;
- (4) Securities outstanding;
- (5) Payments activity;
- (6) Assets under custody;
- (7) Underwritten transactions in debt and equity markets;
- (8) Notional amount of over-the-counter (OTC) derivatives;
- (9) Trading and available-for-sale (AFS) securities;
- (10) Level 3 assets;
- (11) Cross-jurisdictional claims; or
- (12) Cross-jurisdictional liabilities.

(m) Total exposures means total exposures as reported by a bank holding company on the FR Y-15 (as revised to be consistent with the measure used to calculate the supplementary leverage ratio).

(n) Trading and AFS securities means total adjusted trading and available-for-sale securities as reported by a bank holding company on the FR Y-15.

(o) Underwritten transactions in debt and equity markets means total underwriting activity as reported by a bank holding company on the FR Y-15.

§ 217.402 Identification as a global systemically important BHC.

(a) General. A bank holding company subject to this subpart is a global systemically important BHC if the sum of its systemic indicator scores for the twelve systemic indicators set forth Table 1 of this section, as determined under paragraph (b) of this section, equals or exceeds 130 basis points. A bank holding company must calculate the sum of its systemic indicator scores on an annual basis by December 31 of each year.

(b) Systemic indicator score. (1) Except as provided in paragraph (b)(2) of this section, the systemic indicator score in basis points for a given systemic indicator is equal to:

(i) The ratio of:

(A) The amount of the systemic indicator, as reported on the bank holding company's most recent FR Y-15; to

(B) The aggregate global indicator amount for that systemic indicator published by the Board in the fourth quarter of that year;

(ii) Multiplied by 10,000; and

(iii) Multiplied by the indicator weight corresponding to the systemic indicator as set forth in Table 1 of this section.

(2) Maximum substitutability score. The sum of the systemic indicator scores for the indicators in the substitutability category (assets under custody, payments systems activity, and underwriting activity) is capped at 100 basis points.

Table 1

Category	Systemic Indicator	Indicator Weight
Size	Total exposures	20 percent
Interconnectedness	Intra-financial system assets	6.67 percent
	Intra-financial system liabilities	6.67 percent
	Securities outstanding	6.67 percent

Substitutability	Payments activity	6.67 percent
	Assets under custody	6.67 percent
	Underwritten transactions in debt and equity markets	6.67 percent
Complexity	Notional amount of over-the-counter (OTC) derivatives	6.67 percent
	Trading and available-for-sale (AFS) securities	6.67 percent
	Level 3 assets	6.67 percent
Cross-jurisdictional activity	Cross-jurisdictional claims	10 percent
	Cross-jurisdictional liabilities	10 percent

§ 217.403 GSIB surcharge.

(a) General. A company identified as a global systemically important BHC pursuant to § 217.402(a) must calculate its GSIB surcharge on an annual basis by December 31 of each year.

The GSIB surcharge is equal to the greater of:

(1) The method 1 surcharge calculated in accordance with paragraph (b) of this section;

and

(2) The method 2 surcharge calculated in accordance with paragraph (c) of this section.

(b) Method 1 surcharge.

(1) General. A bank holding company's method 1 surcharge is the amount set forth in Table 2 that corresponds to the sum of the bank holding company's systemic indicator scores for the twelve systemic indicators included in Table 1 of § 217.402, calculated pursuant to § 217.402.

Table 2: Method 1 Surcharge

Method 1 Score	Method 1 Surcharge
Below 130	0.0 percent
130 – 229	1.0 percent
230 – 329	1.5 percent
330 – 429	2.0 percent
430 – 529	2.5 percent
530 – 629	3.5 percent

(2) Higher method 1 surcharges. To the extent that the score of a global systemically important BHC equals or exceeds 630 basis points, the method 1 surcharge equals the sum of:

- (i) 4.5 percent; and
- (ii) An additional 1.0 percent for each 100 basis points that the BHC’s score exceeds 630

basis points.

(c) Method 2 surcharge.

(1) General. A bank holding company’s method 2 surcharge is the percentage amount set forth in Table 3 that corresponds to the bank holding company’s method 2 score.

Table 3: Method 2 Surcharge

Method 2 Score	Method 2 Surcharge
Below 130	0.0 percent
130 – 229	1.0 percent
230 – 329	1.5 percent
330 – 429	2.0 percent
430 – 529	2.5 percent
530 – 629	3.0 percent
630 – 729	3.5 percent
730 – 829	4.0 percent
830 – 929	4.5 percent
930 – 1029	5.0 percent
1030 - 1129	5.5 percent

(2) Higher method 2 surcharges. To the extent that the score of a global systemically important BHC equals or exceeds 1130 basis points, the method 2 surcharge equals the sum of:

- (i) 5.5 percent; and
- (ii) An additional 0.5 percent for each 100 basis points that the BHC’s score exceeds 630

basis points.

(3) Method 2 score. A bank holding company’s method 2 score is equal to:

(i) The sum of:

(A) The bank holding company's systemic indicator scores for the nine systemic indicators included in table 4 of paragraph (c)(4) of this section, each weighted as described therein; and

(B) The bank holding company's short-term wholesale funding score, calculated pursuant to paragraph (c)(5) of this section;

(ii) Multiplied by 2.

(4) Systemic indicator score. A bank holding company's score for a systemic indicator is equal to:

(i) The ratio of:

(A) The amount of the systemic indicator, as reported on the bank holding company's most recent FR Y-15; to

(B) The aggregate global indicator amount for that systemic indicator published by the Board in the fourth quarter of that year;

(iii) Multiplied by 10,000; and

(iv) Multiplied by the indicator weight corresponding to the systemic indicator as set forth in Table 4 of this section.

Table 4

Category	Systemic Indicator	Indicator Weight
Size	Total exposures	20 percent
Interconnectedness	Intra-financial system assets	6.67 percent
	Intra-financial system liabilities	6.67 percent
	Securities outstanding	6.67 percent
Complexity	Notional amount of over-the-counter (OTC) derivatives	6.67 percent

	Trading and available-for-sale (AFS) securities	6.67 percent
	Level 3 assets	6.67 percent
Cross-jurisdictional activities	Cross-jurisdictional claims	10 percent
	Cross-jurisdictional liabilities	10 percent

(5) Short-term wholesale funding score. (i) General. Except as provided in § 217.400(b)(3)(ii), a bank holding company's short-term wholesale funding score is equal to:

(A) The average of the bank holding company's weighted short-term wholesale funding amount (defined in paragraph (c)(5)(ii) of this section), calculated for each business day of the previous calendar year;

(B) Divided by the bank holding company's average risk-weighted assets; and

(C) Multiplied by a fixed factor of 175.

(ii) Weighted short-term wholesale funding amount. (A) To calculate its weighted short-term wholesale funding amount, a bank holding company must calculate the amount of its short-term wholesale funding on a consolidated basis for each business day and weigh the components of short-term wholesale funding in accordance with Table 5 of this section.

(B) Short-term wholesale funding includes the following items, each as defined in paragraph (c)(5)(iii) of this section:

(1) All funds that the bank holding company must pay under each secured funding transaction, other than an operational deposit, with a remaining maturity of 1 year or less;

(2) All funds that the bank holding company must pay under all unsecured wholesale funding, other than an operational deposit, with a remaining maturity of 1 year or less;

(3) The fair value of an asset as determined under GAAP that a bank holding company must return under a covered asset exchange with a remaining maturity of 1 year or less;

(4) The fair value of an asset as determined under GAAP that the bank holding company must return under a short position; and

(5) All brokered deposits and all brokered sweep deposits held at the bank holding company provided by a retail customer or counterparty.

(C) For purposes of calculating the short-term wholesale funding amount and the components thereof, a bank holding company must assume that each asset or transaction described in paragraph (c)(5)(ii)(B) of this section matures in accordance with the criteria set forth in 12 CFR 249.31.

Table 5

Component of short-term wholesale funding	Remaining Maturity of 30 days of less or no maturity	Remaining Maturity of 31 to 90 days	Remaining Maturity of 91 to 180 days	Remaining Maturity of 181 to 365 days
Secured funding transaction secured by a level 1 liquid asset	25 percent	10 percent	0 percent	0 percent
(1) Secured funding transaction secured by a level 2A liquid asset; (2) Unsecured wholesale funding where the customer or counterparty is not a financial sector entity or a consolidated subsidiary thereof; (3) Brokered deposits and brokered sweep deposits provided by a retail customer or counterparty; (4) Covered asset exchanges involving the future exchange of a Level 1 asset for a Level 2A asset; and	50 percent	25 percent	10 percent	0 percent

(5) Short positions where the borrowed security is either a Level 1 or Level 2A asset				
(1) Secured funding transaction secured by a level 2B liquid asset (2) Covered asset exchanges and short positions (other than those described in the category above)	75 percent	50 percent	25 percent	10 percent
(1) Unsecured wholesale funding where the customer or counterparty is a financial sector entity or a consolidated subsidiary thereof; and (2) Any other component of short-term wholesale funding	100 percent	75 percent	50 percent	25 percent

(iii) Short-term wholesale funding definitions. The following definitions apply for purposes of paragraph (c)(5)(ii)(B) of this section.

(a) Brokered deposit means any deposit held at a bank holding company that is obtained, directly or indirectly, from or through the mediation or assistance of a deposit broker as that term is defined in section 29 of the Federal Deposit Insurance Act (12 U.S.C. 1831f(g)), and includes a reciprocal brokered deposit and a brokered sweep deposit.

(b) Brokered sweep deposit means a deposit held at a bank holding company by a customer or counterparty through a contractual feature that automatically transfers to the bank holding company from another regulated financial company at the close of each business day amounts identified under the agreement governing the account from which the amount is being transferred.

(c) Covered asset exchange means a transaction in which a bank holding company has provided assets of a given liquidity category to a counterparty in exchange for assets of a higher liquidity category, and the bank holding company and the counterparty agreed to return such assets to each other at a future date. Categories of assets, in descending order of liquidity, are level 1 liquid assets, level 2A liquid assets, level 2B liquid assets, and assets that are not HQLA. Covered asset exchanges do not include secured funding transactions.

(d) Consolidated subsidiary means a company that is consolidated on the balance sheet of a bank holding company or other company under GAAP.

(e) Deposit insurance means deposit insurance provided by the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.).

(f) Financial sector entity has the meaning set forth in 12 CFR 249.3.

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

(h) High-quality liquid asset (HQLA) has the meaning set forth in 12 CFR 249.3.

(i) Level 1 liquid asset is an asset that qualifies as a level 1 liquid asset pursuant to 12 CFR 249.20(a).

(j) Level 2A liquid asset is an asset that qualifies as a level 2A liquid asset pursuant to 12 CFR 249.20(b).

(k) Level 2B liquid asset is an asset that qualifies as a level 2B liquid asset pursuant to 12 CFR 249.20(c).

(l) Operational deposit has the meaning set forth in 12 CFR 249.3.

(m) Retail customer or counterparty has the meaning set forth in 12 CFR 249.3.

(n) Secured funding transaction means any funding transaction that is subject to a legally binding agreement and gives rise to a cash obligation of the bank holding company to a counterparty that is secured under applicable law by a lien on assets owned by the bank holding company, which gives the counterparty, as holder of the lien, priority over the assets in the event the bank holding company enters into receivership, bankruptcy, insolvency, liquidation, resolution, or similar proceeding. Secured funding transactions include repurchase transactions, loans of collateral to the bank holding company's customers to effect short positions, other secured loans, and borrowings from a Federal Reserve Bank.

(o) Short position means a transaction in which a bank holding company has borrowed or otherwise obtained a security from a counterparty and sold that security to sell to another counterparty, and the bank holding company must return the security to the initial counterparty in the future.

(p) Unsecured wholesale funding means a liability or general obligation, including a wholesale deposit, of the bank holding company to a wholesale customer or counterparty that is not secured under applicable law by a lien on assets owned by the bank holding company.

(q) Wholesale customer or counterparty means a customer or counterparty that is not a retail customer or counterparty.

THIS PAGE RELATES TO THE NOTICE OF PROPOSED RULEMAKING TITLED: RISK-BASED CAPITAL GUIDELINES: IMPLEMENTATION OF CAPITAL REQUIREMENTS FOR GLOBAL SYSTEMICALLY IMPORTANT BANK HOLDING COMPANIES

By order of the Board of Governors of the Federal Reserve System, December 8, 2014.

Robert deV. Frierson,
Secretary of the Board.