Federal Reserve, Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) Propose Higher Capital Requirements for Largest Banks

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On July 9, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (collectively, the Agencies) issued a joint notice of proposed rulemaking (NPR) that would strengthen the leverage requirements applicable to the largest, most systemically important banking organizations and their subsidiary insured depository institutions. The NPR applies only to banking organizations with at least $700 billion in total consolidated assets at the top-tier bank holding company (BHC) or at least $10 trillion in assets under custody (covered BHCs), and any insured depository institution subsidiary of these BHCs (covered insured depository institutions).

The interim final rule:

- Would increase the three percent supplementary leverage ratio requirement contained in the interim final rule titled “Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action; Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements; Advanced Approaches Risk-Based Capital Rule; and Market Risk Capital Rule.”
- Would apply to the largest, most interconnected banking organizations with at least $700 billion in total consolidated assets at the top-tier BHC or at least $10 trillion in assets under custody (covered BHCs) and any insured depository institution subsidiary of these BHCs (covered insured depository institutions (IDIs).
- Would establish for covered IDIs a supplementary leverage ratio of six percent as a “well-capitalized” threshold for prompt corrective action.
- Establishes for covered BHCs a capital conservation buffer composed of Tier 1 capital of two percent of total leverage exposure, thus mandating a supplementary leverage ratio of five percent to avoid restrictions on capital distributions.
- Would have a denominator consistent with total leverage exposure in the Agencies’ Basel III rule.

The Agencies “are seeking comment on the proposed calibration, including whether the increase in leverage requirements would appropriately complement the increases in the risk-based capital requirements in the final rule, and whether and how risk-based capital requirements could be simplified.”

Read more.

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