

## **Interagency Proposal to Amend Regulatory Capital Requirements for Large Banks**

The FDIC, Federal Reserve, and OCC have proposed changes to the regulatory capital framework for all banking organizations in the United States and their subsidiary depository institutions with total consolidated assets of \$100 billion or more or significant trading activity. These banks are identified as “large banks” and have been categorized into the following four categories:

- Category I—U.S. globally systemically important banks and their subsidiaries (GSIBs)
- Category II—banking organizations with greater than \$700 billion in total assets or greater than \$75 billion in cross jurisdictional activity
- Category III—banking organizations with greater than \$250 billion in total assets or greater than \$75 billion in nonbank assets, weighted short-term wholesale funding, or off-balance sheet exposure
- Category IV—other banking organizations with \$100 billion to \$250 billion in total assets

All large banks (categories I – IV) will now be required to include accumulated other comprehensive income (AOCI), a measure of unrealized gains and losses that includes securities held available-for-sale, in the calculation of regulatory capital.

The proposal introduces the “expanded risk-based approach”, which calculates total risk-weighted assets using credit risk, equity risk, operational risk, market risk, and credit valuation adjustment (CVA) risk. This approach would utilize a broad set of risk weights to better capture the risk profile of a bank’s credit exposure.

All large banks would no longer be permitted to use internal models under the advanced approaches to calculate credit risk. The proposal would maintain the capital rule’s dual-requirement structure and require large banking organizations to calculate risk-weighted asset amounts under the current standardized approach and the expanded risk-based approach and use the higher of the two risk-weighted asset amounts to satisfy minimum capital requirements. This approach would continue to ensure that the capital requirements applicable

to large banking organizations are at least as strict as those applicable to smaller banking organizations. The risk-based capital approach applied would be used to calculate the banking organizations common equity tier 1 capital ratio, tier 1 capital ratio, and total capital ratio. An output floor of 72.5% would be applied as a lower bound to the calculation of risk-based capital.

Large banks in Category IV would now be subject to the supplementary leverage ratio and the countercyclical capital buffer.

Large banks in all categories would now be subject to the market risk rules for trading activity including CVA risk. All banking organizations would be subject to the market risk requirements when total trading assets and liabilities exceed ten percent of total assets. However, the dollar threshold for trading assets and liabilities would be raised from \$1 billion to \$5 billion.

The proposal contains a three-year transition period that starts on July 1, 2025. Comments on the proposal are due on November 30, 2023.