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Proposed changes to bank
capital and the impact on
regulatory reports

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The federal banking agencies (Board of Governors of the Federal Reserve System [FRB], Office of the Controller of the Currency [OCC], and the Federal Deposit Insurance Company [FDIC]) issued a Notice of Proposed Rulemaking (NPR) to substantively revise the regulatory capital framework for banking organizations of \$100 billion or more and for banking organizations with significant trading activity.¹ In addition, the FRB published for comment an NPR to revise the rule that identifies risk-based capital surcharge for global systemically important banks (GSIBs) holding companies.²

The following regulatory reports are impacted by the respective NPRs:

- Capital Assessments and Stress Testing (FR Y-14A, FR Y-14Q, FR Y-14M)
- Systemic Risk Report (FR Y-15)
- Consolidated Financial Statements for Holding Companies (FR Y-9C)
- Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices (FFIEC 031)
- Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101)
- Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule (FFIEC 102)

Proposed revisions to these reports have not yet been published for the FFIEC 031, FFIEC 101, and FFIEC 102. However, the changes to the FFIEC 031 will likely mirror the changes to the FR Y-9C.

From a regulatory reporting perspective, several of these changes will present operational and implementation challenges. In some cases, these changes could result in changes to the tailoring categories.³ Of course, capital calculations processes will have an effect on regulatory reporting. A summary of the proposed reporting changes follows below.

FR Y-14

Capital ratio (Schedule A.1.d)

The proposed capital rule would require Category I, II, III or IV standards firms to calculate their risk-based capital ratios under the new expanded risk-based approach and the standardized approach. The lower of the two for each ratio would be binding. All capital buffer requirements would apply regardless of whether the expanded risk-based approach or the standardized approach produces the binding ratio.

To allow firms to report using either method, the FR Y-14A Schedule A.1.d (Capital) that the NPR proposes requires Category I, II, and III firms report items based on the common equity method ratio binding on the report date. Firms subject to Category I, II, or III standards that are also subject to the expanded risk-based approach would be required to report the existing items listed in table 1.

Table 1: Reporting requirements under the expanded risk-based approach

Item 55	Adjusted allowance for credit losses includable in tier 2 capital
Item 58	Expanded risk-based approach: Tier 2 capital before deductions
Item 59.b	Expanded risk-based approach: Tier 2 capital deductions
Item 61	Expanded risk-based approach: Tier 2 capital
Item 63	Expanded risk-based approach: Total capital (sum of items 50 and 61)
Item 95	Expanded risk-based approach: Total capital
Item 97	Total risk-weighted assets using expanded risk-based approach
Item 101	Expanded risk-based approach: Common equity tier 1 ratio (%)
Item 103	Expanded risk-based approach: Tier 1 capital ratio (%)
Item 105	Expanded risk-based approach: Total risk-based capital ratio (%)

For firms where the common equity tier 1 ratio under the standardized approach is binding as of the report date, these institutions would report the items listed in table 2.

Table 2: Reporting requirements under the standardized approach

Item 54	Allowance for loan and lease losses includable in tier 2 capital
Item 57	Tier 2 capital before deductions
Item 59.a	Tier 2 capital deductions
Item 60	Tier 2 capital
Item 62	Total capital
Item 94	Total capital
Item 96	Total risk-weighted assets using standardized approach
Item 100	Common equity tier 1 ratio (%)
Item 102	Tier 1 capital ratio (%)
Item 104	Total risk-based capital ratio (%)

The proposed capital changes adjust the concept of eligible credit reserves included in tier 2 capital. This would be replaced by adjusted allowance for credit losses includable in tier 2 capital for firms subject to the expanded risk-based approach, resulting in a revised Item 55 (Adjusted Allowance for Credit Losses Includable in Tier 2 Capital) to capture the adjusted allowance for credit losses includable in tier 2 capital.

The NPR extends the reporting to cover both the risk-based approach and the standardized approach for:

- Item 134 (Maximum Payout Ratio)
- Item 135 (Minimum Payout Amount)
- Item 146(a) (TLAC risk-weighted asset buffer)

The capital proposal would eliminate the all other comprehensive income (AOCI) opt-out with a transition period. The FR Y-14A, A.1.d, item 18 was revised to eliminate the opt-out option for AOCI for Category III and IV firms. Draft instructions have not been updated yet to reflect this change.

Regulatory capital deduction

The instructions for the FR Y-14 Schedule A.1.d and FR Y-14Q Schedule D (Regulatory Capital) were revised to specify what items (deductions) are applicable for firms using the expanded approach and what items are applicable for firms using the standardized approach.

Risk-weighted assets (RWA)

The instructions for the FR Y-14Q Schedule A.1 (International Auto Loans) and Schedule A.2 (U.S. Auto Loans) were revised to replace the internal ratings-based (IRB) approach with the expanded approach. Also, with the shift to the expanded approach the NPR proposes that probability of default (PD), loss given default (LGD), expected loss given default (EGD), and exposure at default (EAD) be revised to follow proposed capital rules on FR Y-14Q Schedule A (Retail) and Schedule H (Wholesale Risk) and FR Y-14M Schedule A (First Lien), Schedule B (Home Equity), and Schedule D (Credit Card).

Market risk RWA

The proposed rule overhauled the market risk framework, requiring a standardized approach and internal model approach with regulatory approval. To implement these changes, FR Y-14A Schedule A.1.c.1 (Standardized RWA) was revised to add 35 items (see appendix 1) that cover the following six categories under the standardized measure:

- Delta Capital Requirements
- Vega Capital Requirements
- Curvature Capital Requirements
- Default Risk Capital Requirements
- Residual Risk Add-on Components
- Capital Add-ons

These items provide the drivers of market risk RWAs, giving regulators an understanding of how changes in the projections of exposure types contribute to overall changes in market risk RWAs over the projection horizon. To provide insight into a firm's market risk RWAs for firms that received approval to calculate market risk capital requirements under the models-based measure, items were added to capture total standardized RWAs for model-ineligible trading desks and total RWAs under the models-based measure for model-eligible trading desks that are approved. Item definition will be provided with revised FFIEC 102 (which has not been published yet). These items are only reported to firms subject to the Market Risk Rule.

Operational risk (FR Y-14Q, Schedule E)

The proposal made several significant changes to operational risk, including proposing a standardized approach and addressing several shortcomings in the current framework. Given the nature of the changes this might be one of the more challenging areas to implement from a reporting perspective.

The definition of operation loss was revised to explicitly state the types of loss events that are covered. The new definition is as follows:

"An event that results in loss due to inadequate or failed internal processes, people, and systems or from external events (including legal loss events and restatements or corrections of financial statements that result in a reduction of capital relative to amounts previously reported). Losses with a common underlying trigger must be grouped into a single operational loss event. Operational loss events are classified according to any of the seven operational loss event type categories (Level 1)."

The seven operational risk types included in the definition are as follows:

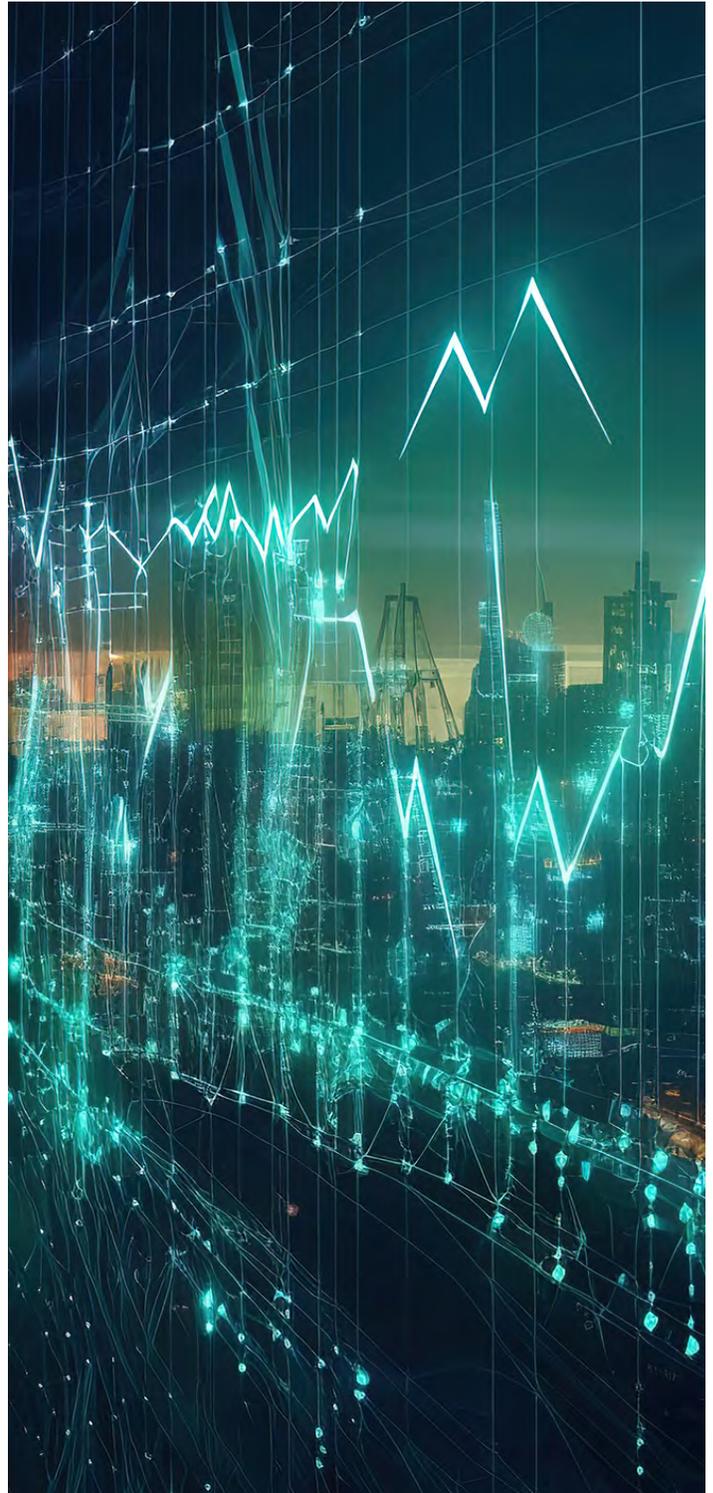
- **Internal fraud:** Losses resulting from an act involving at least one internal party intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity and discrimination noncompliance events.
- **External fraud:** Losses resulting from an act by a third party of a type intended to defraud, misappropriate property or circumvent the law. Retail credit card losses arising from non-contractual, third party-initiated fraud (for example, identity theft) are external fraud operational losses.
- **Employment practices and workplace safety:** Losses resulting from an act inconsistent with employment, health, or safety laws or agreements; from payment of personal injury claims; or payment arising from diversity and discrimination noncompliance events.
- **Clients, Products and business practices:** Losses resulting from the nature or design of a product, or from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements).
- **Damage to physical assets clients:** Failure losses resulting from the loss of or damage to physical assets from natural disasters or other events.

- **Business disruption and system:** Management losses resulting from disruption of business or system failures, including hardware, software, telecommunications, or utility outages or disruptions.
- **Execution, delivery, and process:** Losses resulting from failed transaction processing or process management, or losses arising from relations with trade counterparties and vendors.

On Schedule E, firms will report loss events at the impact level when a loss event involves more than one expense that occurs over time. That is, “a single operational loss event could have multiple impacts (e.g., several accounting or recovery dates) and/or could be assigned to multiple business lines. In cases where the institution submits a single loss event that has multiple impacts and/or is assigned to multiple business lines, the institution should report these impacts as individual records and **the same loss reference number must be used** to link these individual records to the event.”

The instructions were also revised to include timing losses (operational risk events that cause a temporary distortion of a banking organization’s financial statements in a particular financial reporting period but that can be fully corrected when later discovered [e.g., revenue overstatement, accounting, and mark-to-market errors]) by adding a timing loss flag. The instructions were also clarified to ensure that the accounting date for loss events should be specific to each impact and reflect the date the financial loss associated with the impact was recorded on the banking organization’s financial statements.

The threshold for reporting events is proposed to be set at no greater than \$20,000 on a nominal and net loss basis on Schedules E.1 and E.4 rather than allowing firm’s to set their own thresholds. Finally, on Schedule E, a new insurance recovery item was proposed—“Insurance Recovery Amount (\$USD)” —to Schedule E.1. To avoid double counting of insurance recoveries, the “Recovery Amount (\$USD)” item has been proposed to be renamed as “Non-Insurance Recovery Amount (\$USD)” and specifies that only non-insurance recoveries are reported in this item.



FR Y-15

Proposed reporting changes reflect efforts to improve the “precision of the GSIB surcharge and better measure systemic risk.” The following changes are included:

- Moving from spot reporting to daily and monthly averages for several items
- Clarifications to improve consistency of data and improving some indicators measurement
- Aligning the FR Y-15 with current and proposed capital rules

Some of the changes will increase the exposures reported on FR Y-15 and may affect the tailoring category of some firms.

Reporting of averages

To avoid creating incentives by using point-in-time data to manage a firm’s indicators and to better reflect a firm’s risk profile in several data items, regulators have proposed to move to averages as follows:

- For GSIBs, the following data would be reported using daily averages:
 - Intra-financial system assets for on-balance-sheet items on Interconnectedness Indicators Schedule (Schedule B)
 - Intra-financial system liabilities for on-balance-sheet items on Schedule B
 - Securities outstanding on Schedule B
 - Assets under custody on Substitutability Indicators Schedule (Schedule C)
 - Trading and available for sale securities on Complexity Indicators (Schedule D)
 - Level 3 assets on Schedule D
 - Cross-jurisdictional claims and liabilities on Cross-Jurisdictional Activity Schedule (Schedule E)
- For GSIBs, the following data would be reported using month-end averages for the quarter:
 - Intra-financial system assets for on-balance-sheet items (Schedule B)
 - Intra-financial system liabilities for on-balance-sheet items (Schedule B)
 - OTC derivatives (Schedule D)
- For **all** FR Y-15 reporters, Total Exposure Systemic Indicator (Schedule A) would be reported as follows:
 - Daily averages for on-balance-sheet items
 - Month-end averages for the quarter for off-balance-sheet items

Reporting averages will likely have a significant impact on FR Y-15 reporting. Calculating averages may result in increased cost to firms from building processes to collect and aggregate daily data; data that currently is populated from other reports will now have to be reported; and an increased risk of data quality issues (daily averaging on other reports has often resulted in reporting errors).

Revisions to align the FR Y-15 with capital proposal

Several changes were proposed for the FR Y-15 to align with proposed capital changes on Schedule A. That is, other off-balance-sheet exposures have been proposed to be revised to:

- Eliminate the 0% Credit Conversion Factor (CCF)
- Add a 10% CCF
- Add a 40% CCF

Definition of financial institution

On Schedule B, the definition of a financial institution was proposed to now include:

- Savings and loan holding companies
- Private equity funds
- Asset management companies
- Exchange-traded funds

The definition of *financial institutions* has been one of the areas that has required interpretation and clarifications. The expansion of the definition may require significant efforts to update reference data and reporting rules/logic in determining appropriate inclusions and exclusions.

Derivative reporting

Several revisions have been proposed for reporting of derivatives. The reporting of derivatives on Schedules B and D would require reporting a firm’s guarantee of client performance to Central Counterparty (CCP). This will make the reporting of derivatives consistent throughout the FR Y-15. The following are additional proposed revisions to Schedule B:

- Revise the instructions to provide for reporting potential future exposure (PFE) using SA-CCR
- Revise the instructions to allow for netting of non-cash financial collateral (as defined in the capital rule)

These revisions make the reporting on the FR Y-15 consistent with capital rules and in some cases result in the reduction of derivative exposure from the netting of non-cash collateral.

Securities reporting

Several revisions were proposed for the reporting of securities on Schedule B, including the following:

- Excluding CDs, if the CD is not due to or held by a financial institution
- Including preferred shares that have a determinable fair value, even if the securities are not registered or traded on an exchange
- Clarifying that all publicly traded instruments should be reported

The exclusion of these CDs may reduce reported exposures, while inclusion of preferred shares and clarification on publicly traded instruments may increase reported exposures.

Trading volume

On Schedule C, trading volume has been proposed to be moved from a memorandum section to the main body of the schedule. While there is no change in reporting requirements trading volume, trading volume for fixed income securities and equity securities with each becomes a systemic indicator.

Reporting of currencies

Updating the currencies reported on Schedule C has been proposed. The basis for these changes is the activity in currencies as reported on the Bank for International Settlements' triennial foreign exchange survey. The proposed currency changes are as follows:

- Adding the Singapore dollar
- Moving Brazilian real to the memo section
- Adding South Korean won and Norwegian krone to the memo section
- Removing the Mexican peso from the report

Cross-jurisdictional data

The reporting of cross-jurisdictional data on Schedule E may have a significant impact on the systemic risk indicator and may result in shifts in tailoring categories. Schedule E is proposed to now include foreign derivative claims under the *Foreign Claims and Foreign Liabilities* section in the body of Schedule E rather than as a memo item. While this data is already reported on FR Y-15, moving the data to the body will increase the amount reported on the systemic risk indicator, thereby creating the potential for firms' tailoring categories to shift.

Foreign banking organizations will be required to report foreign claims with and without the exposure to parent banks and related institutions; however, only the amount without the parent bank and its related institutions will be reported for the systemic risk indicator. It is likely the form and instructions will be updated to further clarify this.

Reporting of derivatives on Schedule E was proposed to exclude the netting of collateral from the derivative value. This may result in firms increasing the cross-jurisdictional derivative exposure. In addition, liabilities booked at foreign offices has been proposed to be reported regardless of whether payment is guaranteed at a location outside the country of the office. Lastly, the reference to the Treasury International Capital (TIC) instructions for reporting cross-jurisdictional liabilities was eliminated. The elimination of the TIC form references will eliminate some confusion in reporting this schedule. The proposal also states that further clarifications will be made, though timing is unclear.

The NPR states cross-jurisdictional change would result in seven FBOs moving from Categories III and IV to Category II, and two IHCs moving from Category III to Category II. However, it is unclear how this data was calculated.



Short-term wholesale funding (STWF)

Revisions to STWF (Schedule G) are proposed to bring consistency in reporting with other reports and capital rules. To correct an outstanding issue with the maturity buckets, Schedule G was aligned with the maturity buckets on the Complex Institution Liquidity Monitoring Report (FR 2052a). The instructions will be updated to align with the GSIB surcharge framework for STWF and explicitly state that STWF should be consistent with the definition in the capital rule.

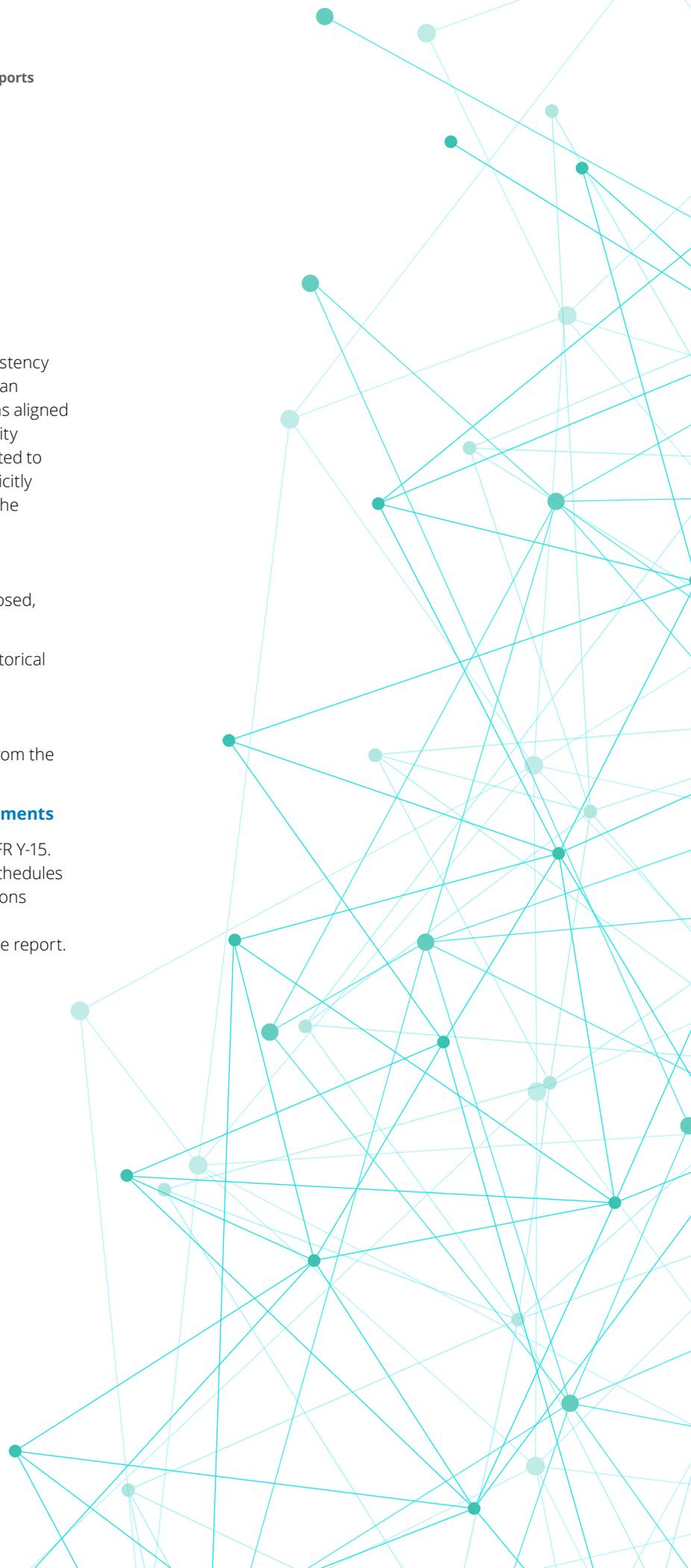
Other instructions and report changes

Several other reporting and instruction changes were proposed, including the following:

- Addition of instructions for reporting averages when historical data is not available
- Adding total systemic indicators to each schedule
- Moving the definition of Conduit Lending Transactions from the body of the instructions to the glossary

Foreign Banking Organization (FBO) reporting requirements

The proposal would change how an FBO would submit the FR Y-15. FBOs would no longer report the current FBO Schedules (Schedules H-N). Instead FBOs would submit the Combined US Operations (CUSO) report on the current domestic Schedules A-G and Immediate Holding Companies (IHCs) would make a separate report.



FR Y-9C

Revisions to the FR Y-9C are designed to implement the proposed capital rule on the report. This would affect the Regulatory Capital Schedule (HC-R) and Trading Assets and Liabilities (HC-D). On HC-R, Part I (Regulatory Capital Components and Ratios), the instructions were revised to apply the same capital standards for Category III and IV firms as Category I and Category II and to replace references to advanced approach firms to expanded risk-based approach.

To reflect the transition effect for Categories III and IV for elimination of the AOCI opt-out, Item 3.a (AOCI opt-out election) and Items 9.a through 9.f have been revised. Also, to allow for the application of the stress capital buffer requirement to the risk-based capital ratios derived from the expanded risk-based approach in addition to the standardized approach, instructions for the Capital Conservation Buffer requirement (Items 60.a through 60.c) have been revised.

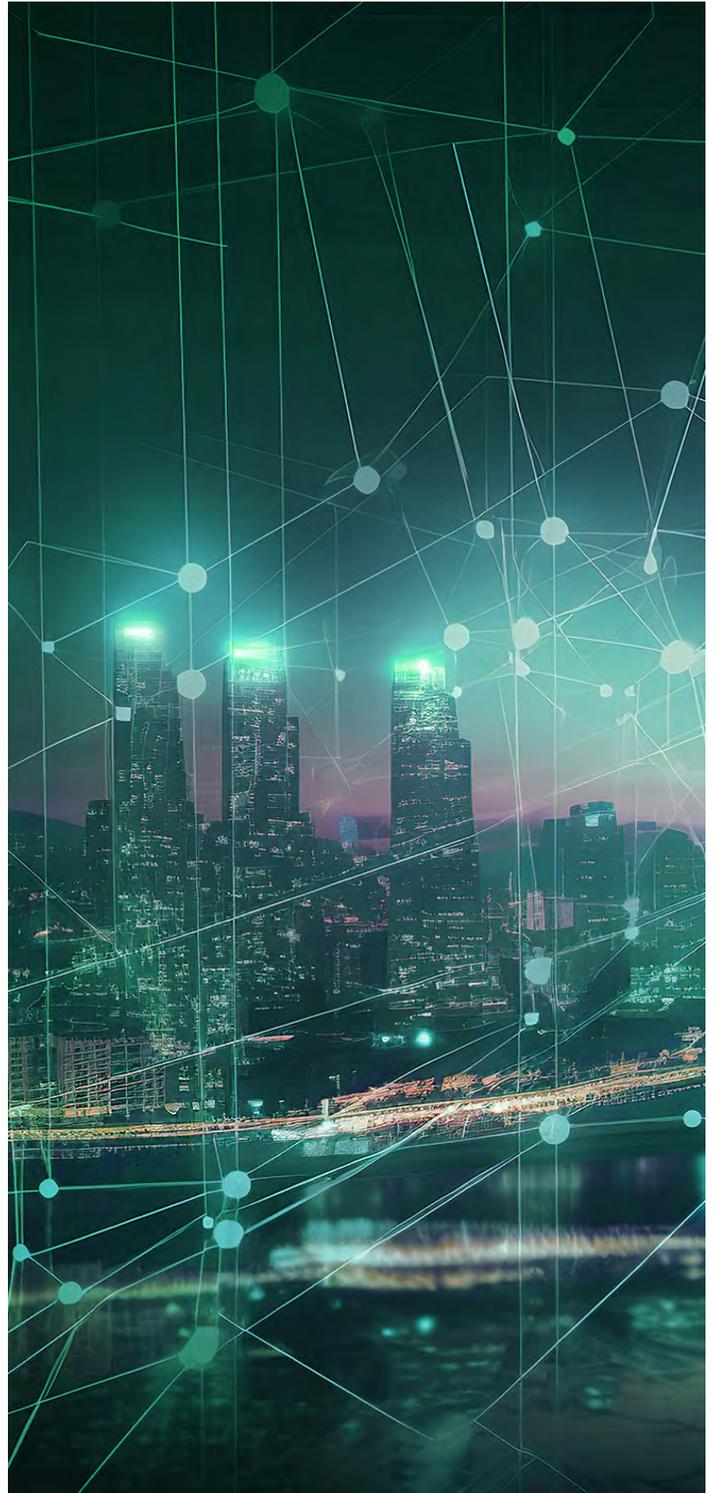
In addition, there are proposed instructions for the transition of outdated transition provisions for the Community Bank Leverage Ratio (CBLR) framework and certain CECL transition instructions for advanced approach firms.

On HC-R, Part II (Risk-Weighted Assets), the instructions were revised to replace references from advanced approach firms to the expanded risk-based approach. In addition, Market-Risk Weighted Assets (Item 27) was revised to reflect the proposed market risk rule.

A new memorandum item was added to capture information about customer and proprietary reserve balances of broker-dealers for purposes of determining the market risk rule on HC-R.

Effective dates

The NPR for the capital changes were proposed to be effective for July 2025. The FR Y-14Q, FR Y-14M, and FR Y-9C changes would be effective with September 2025 reports. The FR Y-14A changes would be effective with December 2025 report filings. The FR Y-15 changes would be effective two quarters after the approval of the GSIB surcharge rule.



Next steps

During the comment period, banking organizations should analyze the potential impact of the changes and participate in the industry comment efforts. During this period, it is important that areas that require clarity from regulators be identified and that pro forma reports are created to understand the impact these revisions will have in terms of capital requirements and tailoring requirements. The proposed changes will be affected by the response to comment on the NPR. Therefore, firms should closely monitor the public comment process for industry feedback.



Appendix 1

FR Y-14A market risk items

Line item 50	Delta interest rate risk
Line item 51	Delta credit spread risk for non-securitizations
Line item 52	Delta credit spread risk for securitizations non-correlation trading positions (non-CTP)
Line item 53	Delta credit spread risk for correlation trading positions
Line item 54	Delta equity risk
Line item 55	Delta commodity risk
Line item 56	Delta foreign exchange risk
Line Item 57	Total delta capital requirement
Line Item 58	Vega interest rate risk
Line Item 59	Vega credit spread risk for non-securitizations
Line Item 60	Vega credit spread risk for securitizations' non-correlation trading positions (non-CTP)
Line Item 61	Vega credit spread risk for correlation trading positions
Line Item 62	Vega equity risk
Line Item 63	Vega commodity risk
Line Item 64	Vega foreign exchange risk
Line Item 65	Total vega capital requirement
Line Item 66	Curvature interest rate risk
Line Item 67	Curvature credit spread risk for non-securitizations
Line Item 68	Curvature credit spread risk for securitizations' non-CTP
Line Item 69	Curvature credit spread risk for correlation trading positions
Line Item 70	Curvature equity risk
Line Item 71	Curvature commodity risk
Line Item 72	Curvature foreign exchange risk
Line Item 73	Total curvature capital requirement
Line Item 74	Non-securitization debt and equity positions
Line Item 75	Securitization positions non-CPT
Line Item 76	Correlations trading positions
Line Item 77	Total standardized default risk capital requirement
Line Item 78	Gross effective notional amount of instruments subject to 1.0% risk weight
Line Item 79	Gross effective notional amount of instruments subject to 0.1% risk weight
Line Item 80	Residual risk add-on
Line Item 81	Fallback capital requirement
Line Item 82	Capital add-on for re-designations
Line Item 83	Other capital add-ons
Line Item 84	Total risk-weighted assets for all trading desks
Line Item 85	Total risk-weighted assets for model-ineligible trading desks
Line Item 86	Total risk-weighted assets

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Endnotes

1. Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (FRB), and Federal Deposit Insurance Corporation (FDIC), "[Federal Register notice: Basel III endgame proposal](#)," July 27, 2023.
2. FRB, "[Federal Register notice: G-SIB surcharge proposal](#)," July 27, 2023.
3. Deloitte, "[Federal Reserve Board finalizes tailoring prudential standards for large banking institutions](#)," October 21, 2019; Deloitte, "[Federal Reserve Board finalized tailoring prudential standards for foreign banking organizations](#)," October 21, 2019.

Center for Regulatory Strategy US

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