

U.S. regulatory capital Basel III final rules

Key takeaways and highlights for U.S. banks



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Contents

U.S. Basel III rules are finalized¹

Key takeaways from changes in the final rule

Implementation timelines and what's next

Final rule highlights

- Capital numerator
- Capital buffers and leverage ratios
- RWA standardized and advanced approaches

Notice of proposed rulemaking (NPR) highlights

- Supplementary leverage ratio NPR
- Market risk NPR

An additional look ahead

¹ On July 2, 2013, the Federal Reserve (Fed), Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) released [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](#). The Fed also released market risk NPR: [Risk-Based Capital Guidelines: Market Risk](#). The Fed, OCC, and FDIC also released a supplementary leverage ratio NPR: [Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and their Subsidiary Insured Depository Institutions](#). The Fed and OCC are adopting Basel III as a final rule. The FDIC is adopting it as an interim final rule until the supplementary leverage ratio NPR is finalized.

U.S. Basel III rules are finalized

Advanced banks continue to feel the pressure, while smaller banks feel relief

- **No respite for largest banks; relief for community banks**—industry efforts to exclude smaller banks altogether from Basel III were not successful. Saving and loan holding companies (SLHC) substantively involved in insurance or commercial activities are excluded from scope of Basel III
- **Full phase-in date of January 2018** remains unchanged, but requires faster transition to compensate for delay in U.S. start date
 - For advanced banks, the start date is January 2014 and retains the “parallel run” approval requirement
 - For non-advanced banks, the start date is January 2015

Observations: Implementation efforts at advanced banks have been underway in anticipation of the final rule. The 2013 CCAR results demonstrated that several large banks have strengthened their capital quality and regulatory capital ratios, which also helps their preparation and positioning vis-à-vis Basel III standards. While the final rules have simplified the standardized approach implementation, given the quantum of changes relative to Basel I, non-advanced banks may have a significant task ahead to migrate to the Basel III capital regime.

- **The minimum common equity tier 1 (CET1) ratio of 4.5%** is retained as proposed in NPR, and capital definitions are largely unchanged
 - **Higher supplementary leverage ratio** has been proposed and will likely become a binding constraint for many banks, rather than a backstop measure. Still to come—**capital charges for short-term funding** (measure penalizes largest banks)

Observations: The effective minimum CET1 requirement will be 7% for most banks and well above 10% for advanced banks, due to the following:

- Capital conservation buffer of 2.5% (all banks)
- Counter cyclical buffer up to 2.5%, initially set at zero (advanced banks)
- Global systemically important financial institution (G-SIFI) capital buffer (ranges between 0 and 2.5% for the largest U.S. banks)
- Community banks (< \$15B in assets) get some relief with trust preferred securities grandfathered in capital

U.S. Basel III rules are finalized

Advanced banks continue to feel the pressure, while smaller banks feel relief

- Treatment for **unrealized gains** and losses in accumulated other comprehensive income (AOCI) in capital (currently excluded from regulatory capital) has been changed in the final rule. Only non-advanced banks **can** make a **one-time opt-out election** not to include unrealized gains and losses in regulatory capital; this option is not available to advanced banks

Observations: Advanced banks may view this unfavorably, and it may create comparability issues in regulatory capital measures across non-advanced banks. While resulting in greater volatility in regulatory capital, a bank's flexibility in how it manages interest rate risk may be limited. A bank could apply a number of approaches, including changing the mix and size of its available-for-sale (AFS) portfolio, shortening its duration to manage capital fluctuations, or holding higher capital cushion etc. It may also have indirect liquidity management implications.

- **Current mortgage risk weights (50% and 100%) are retained**, rather than mortgage risk weights ranging from 35% to 200% based on loan-to-value (LTV) ratios proposed in the NPR.

Observations: The mortgage industry and banks in general benefit from this aspect of the final rule. The operational burden to gather LTV information at the individual mortgage level (to be able to apply the proposed rule) and the associated reporting requirements may have been burdensome. Advanced banks still have to meet complex data and calculation requirements under A-IRB; however, they also benefit from this aspect of final rule because they do not have to capture loan-level mortgage category and LTV data, which for many appeared operationally challenging.

- **No rollback in capital charges for mortgage servicing assets (MSAs)** that will continue to be a deduction from capital above 10% individually and 15% in aggregate, but the additional 90% fair value limitation has been removed

Observations: This may continue the trend (observed in last 18 months) of banks reducing MSAs through sales and nonbanking participants entering the mortgage servicing business.

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Advanced banks continue to feel the pressure, while smaller banks feel relief

- For banks < \$15B, the final rule provides **permanent grandfathering of ineligible capital instruments** and a 10-year transition period for non-advanced banks ≥ \$15B

Observations: This may continue the trend (observed in last 18 months) of banks reducing MSAs through sales and nonbanking participants entering the mortgage servicing business. Banks may decide to divest certain investments in financial institutions to avoid exceeding capital deduction thresholds.

- **Final rule rolls back proposal to require capital for asset sales with representations and warranties** (applicable within 120 days of sale) that mitigate credit risk. Similar to the current rule, these exposures will not require capital.

Observations: Beneficial to the industry with respect to asset production and secondary market transactions, it reduces potential confusion around credit enhancements.

- **Banks with assets > \$50B, which are not advanced banks, are subject to increased qualitative and quantitative disclosures**

Observations: When combined with CapPR and stress testing requirements, additional Pillar 3 public disclosures continue the trend toward a more burdensome capital regime that is similar to advanced banks.

Key takeaways (1 of 2)

Some rules provide capital relief or reduce implementation complexity vis-à-vis the NPR

Rule/topic	Description
Retail mortgages	<ul style="list-style-type: none"> Retains current Basel I approach² (i.e., 50% or 100% risk weight (RW), depending on mortgage type) NPR proposed a methodology that resulted in higher RW and was complex to implement
120-day safe harbor for representations and warranties on mortgages sold	<ul style="list-style-type: none"> Retains Basel I approach (i.e., zero capital for representations and warranties up to 120 days on mortgages sold)^{2,3} NPR had proposed 100% credit conversion factor (CCF) for these exposures
U.S. sovereign guaranteed defaulted exposures	<ul style="list-style-type: none"> Introduces 20% RW for defaulted exposures that are U.S. guaranteed³ NPR proposed the Basel II approach of 100% RW
Financial institutions – “predominantly engaged” test	<ul style="list-style-type: none"> Sets the parameters for the identification of financial institution (FI) for equity investments through a “predominantly engaged” in financial activities test, which sets the bar at equity investments > \$10M or > 10% of common shares of an investee company^{2,3} NPR proposed application of the “predominantly engaged” test to all equity investments
Indirect exposures to financial institutions’ capital instruments	<ul style="list-style-type: none"> Restricts the requirement of indirect exposure (i.e., held via investments in unconsolidated entities) calculation to investment funds only—and allows for an alternate modified (i.e., prospectus limit based) look-through approach^{2,3} NPR proposed application of full look-through approach for all indirect exposures
Central counterparty-related exposures	<ul style="list-style-type: none"> Provides a simplified default fund RW methodology^{2,3} and also provides for lower capital for clearing member-to-client OTC derivative transactions that are an offset to central counterparty (CCP) transactions^{2,3} NPR did not include these calculation approaches
High volatility commercial real estate (HVCRE)	<ul style="list-style-type: none"> Amends the HVCRE definition to exclude agriculture-related exposures^{2,3}
Credit valuation adjustment (CVA)	<ul style="list-style-type: none"> Clarifies that under advanced CVA, capital is calculated at the portfolio, not counterparty, level²
Mortgage servicing assets	<ul style="list-style-type: none"> Removes the 90% MSA fair value limitation^{2,3}

² Applicable to standardized approach.

³ Applicable to advanced approach.

Key takeaways (2 of 2)

...while other final rule clarifications likely result in higher capital

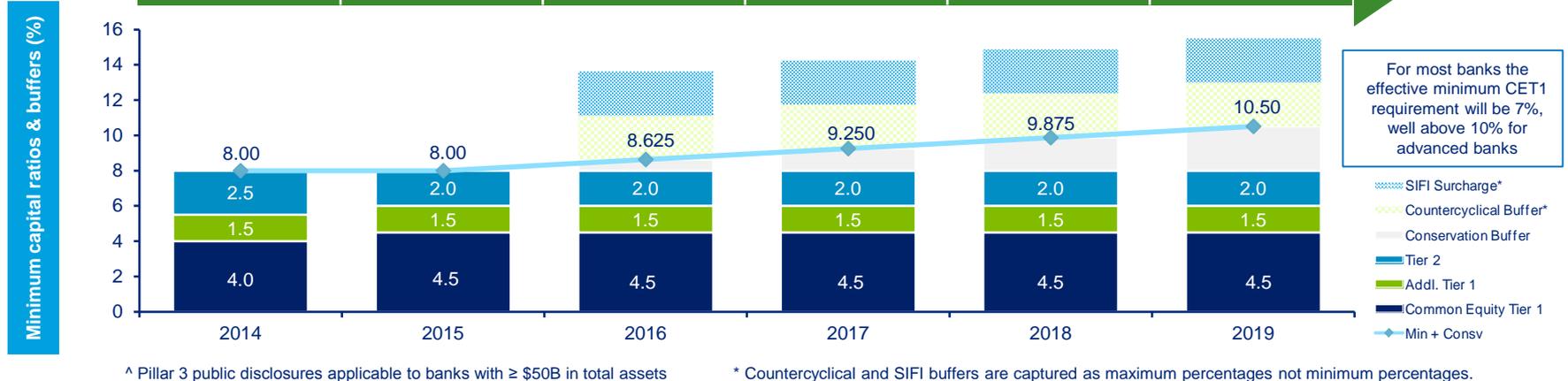
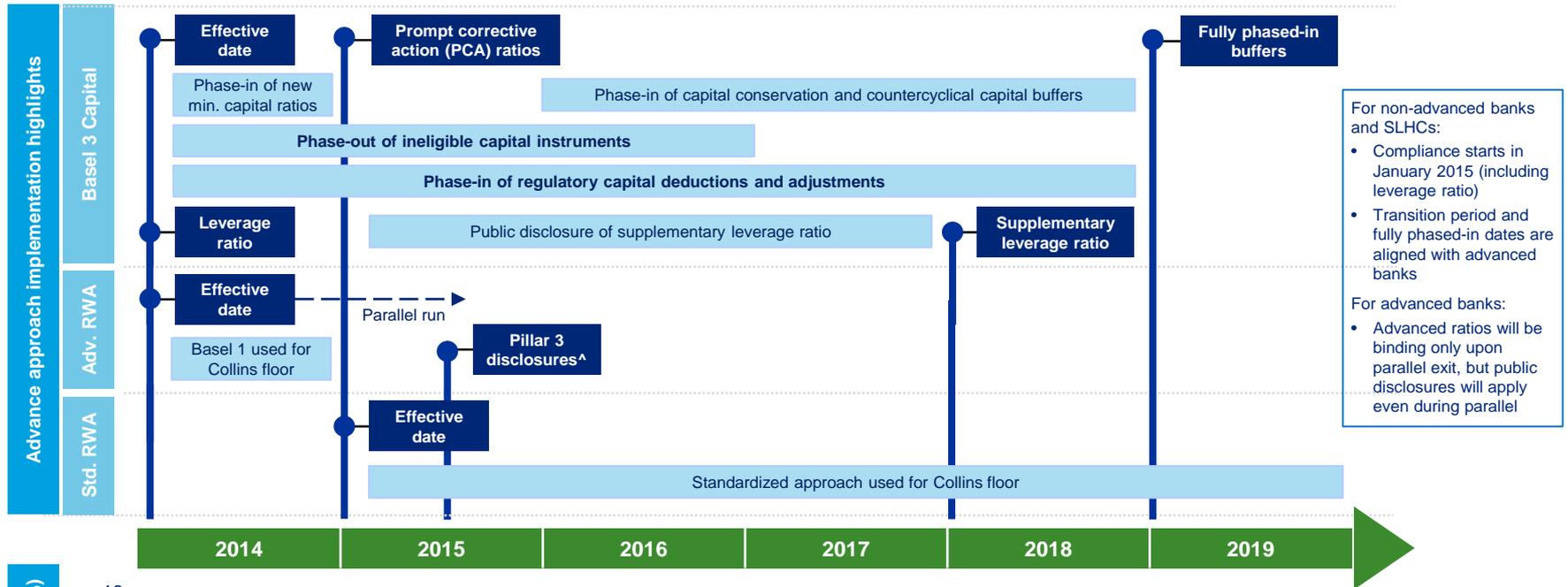
Rule/topic	Description
Supplementary leverage ratio	<ul style="list-style-type: none"> Final rule retains existing 3% supplementary leverage ratio. The supplementary leverage ratio NPR imposes higher ratios for insured depository institutions (minimum 6%) and for bank holding companies (BHCs) (minimum 3% + 2% buffer)³ Effective date remains January 2018, with public disclosure beginning in 2015
Modified look-through approaches for investment funds	<ul style="list-style-type: none"> Retains NPR approach that results in higher capital, and is operationally complex to implement, compared to Basel II (especially the 1250% RW for the full securitization limit allowed in a fund's prospectus)^{2,3} Extends the 20% RW floor for all investment funds;² NPR proposed it only for money market funds
Eligible guarantor	<ul style="list-style-type: none"> Definition of eligible guarantor is largely unchanged from NPR and is more restrictive than current Basel II definition. Specifically, the requirement to have "issued and outstanding unsecured" investment grade debt may render many guarantors ineligible^{2,3}
Countercyclical buffer	<ul style="list-style-type: none"> Expands the scope of the countercyclical buffer calculation to also include market risk covered positions^{2,3}
Application of buffers	<ul style="list-style-type: none"> Conservation buffer will apply to the final (i.e., lower of advanced and standardized) CET1 ratio^{1,2} NPR proposed applying it to the advanced CET1¹³ ratio only
Undrawn amount for securitization exposures	<ul style="list-style-type: none"> Clarifies that undrawn amount is based on the full legal commitment limit of the facility– not the borrowing base limit based on current assets of the pool^{2,3}
Stable value wraps	<ul style="list-style-type: none"> Clarifies that stable value wraps provided will be treated as equity derivatives; current industry practices may vary^{2,3}
Securities holding companies	<ul style="list-style-type: none"> Retains NPR proposal of 100% RW,² replacing Basel I requirement of 20% RW

² Applicable to standardized approach.

³ Applicable to advanced approach.

Implementation timelines

2018 capital transition end-date remains unchanged—Implementation timelines are more immediate



What's next

Final rules represent a significant milestone, but more regulations and clarifications are expected

- Final rule provides clarity and certainty for implementation plans
 - For Basel II banks, which have already made substantial implementation progress, this represents incremental change
 - Basel I banks, and in-scope SLHCs, may need to accelerate implementation plans
- Transition from Basel II to Basel III advanced parallel run will likely introduce ambiguity and implementation challenges
- Several key additional pieces for rule making are pending, which will impact implementation, including:
 - Liquidity ratios are anticipated to apply to all banks with significant implementation complexities and impacts to business practices as liquidity costs are factored into pricing and profitability
 - Domestic and global SIFI buffers are anticipated, which may further raise minimum ratios for the largest banks
 - Reporting and disclosure requirements updates to reflect revised rules are expected in the near future
- Basel Committee on Banking Supervision (BCBS) is also currently calibrating select Basel III topics, which is expected to lead to further changes
 - Pros and cons of simplification vs. complexity in risk based capital standards
 - Comparability of risk weighted assets
 - Refinements to G-SIB categorization criteria
- While full clarity is far from being achieved, recent BCBS publications suggest greater convergence of regulatory capital, systemic risk, and resolution mechanisms

The capital pendulum continues to swing towards higher levels for the largest banks, and upcoming regulations will likely continue this trend.

Final rule highlights

- Capital numerator
- Capital buffers and leverage ratios
- RWA standardized and advanced approaches by asset class
 - Retail, wholesale, counterparty, securitization, equity

Capital numerator

Largely remains the same, with several favorable clarifications- particularly for FI investments

Key changes for advanced banks	Capital impact	Implementation impact
Capital definitions, and capital adjustments and deductions		
Changes the FI definition for identifying FI equity investments, including narrowing the application of the “predominantly engaged” in financial activities test to equity investments > \$10M or > 10% of common shares of a investee company. NPR proposed application of the predominantly engaged test to all equity investments.	↓	↓
Introduces an alternative prospectus limit based look-through approach for identifying Indirect FI equity investments (i.e., held via investments in unconsolidated investment funds). NPR proposed application of full look-through of funds to identify FI indirect investments.	↓	↓
Removes the 90% MSA fair value limitation (retains the deduction approach for MSAs exceeding the 10% and 15% common equity deduction thresholds and the 250% RW applied to all MSAs not deducted).	↓	↓
Provides clarifications around inclusion of employee stock ownership plans (ESOPs) and real estate investment trust (REIT) minority interest in capital.	↓	↔
Allows for some exemptions to minimum five-year maturity requirement for Tier 2, i.e., exemption for an investment company event and grandfathering of exemption for a rating agency event.	↓	↔
Modifies the eligibility criteria for additional Tier 1 capital (AT1) to include dividend stopper feature in non-cumulative perpetual preferred stock.	↓	↔
Banks will be subject to enhanced capital disclosures (in FR-Y9C, Call Report, FFIEC 101) requirements starting January 2014 (including during parallel period).	↔	↑
Clarifies ECL shortfall and excess calculations will not be factored into capital (CET1 and Tier 2, respectively) until exit from parallel run.	↓	↔
Clarifies trust preferred securities collateralized debt obligations (TruPS CDOs) will be treated as synthetic FI exposures (and subject to FI deductions), and non-deducted amounts are subject to securitization treatment.	↑	↑

No major changes to capital adjustments and transition time frames. However, certain exemptions provided to smaller banks (e.g., AOCI opt-out election, grandfathering of TruPS, etc.).

Capital buffers and leverage ratios

Some clarifications on scope and application of buffers

Key changes for advanced banks	Capital impact	Implementation impact
Capital conservation buffer, countercyclical buffer, leverage ratio, and supplementary leverage ratio		
Expands the scope of countercyclical buffer calculation also to include market risk covered positions.	↑	↑
For capital conservation buffer requirements: <ul style="list-style-type: none"> • Change in application of the buffer to apply to the final CET1 ratio (i.e., lower of advanced and standardized) instead of proposal to apply it to the advanced CET1 ratio only • Clarifies capital conservation buffer will apply to the standardized ratio until exit from parallel run 	↑	↔
For capital restrictions applicable to banks below the capital conservation buffer, clarifies definition of capital distributions to exclude capital redemptions that are simultaneous with issuance of similar or higher quality capital.	↓	↔
Retains changes to the leverage ratio calculation (4% minimum, new definition of capital, and eliminates any exceptions). Compliance for advanced banks begins in 2014, and in 2015 for all other banks.	↑	↔
Adopts the supplemental leverage ratio calculation for advanced banks without modification from proposal. The new NPR imposes higher ratios for depository institutions (minimum 6%) and for BHC (minimum 3% + 2% buffer). (See slide 18 for additional details on NPR.)	↑	↑

On top of the higher required minimum ratios and buffers banks will likely need to maintain internal cushions for volatility for unrealized gains and losses included in AOCI and ICAAP/Pillar 2 risks.

Retail

Significant changes to the treatment of residential mortgages introduced in the final rules

Key changes for advanced banks	Capital impact	Implementation impact
Standardized approach		
Removes NPR proposal to assign risk weights based on mortgage categories (Category 1 & 2) and LTV. Instead risk weights would be assigned based on the lien position: <ul style="list-style-type: none"> • 50% RW for first-lien mortgages that meet certain criteria • 100% RW for all other residential mortgages 	↓	↓
Retains the Basel I 120-day safe harbor in the definition of credit-enhancing representations and warranties on assets sold, i.e., no capital requirement for those with early default clauses or premium refund clauses.	↓	↔
Clarifies risk weights for non-U.S. sovereign exposures with no country risk classifications (CRC): <ul style="list-style-type: none"> • Organization for Economic Cooperation and Development (OECD) member with no country risk classifications (CRC) receives 0% RW • Non-OECD member with no CRC receives 100% RW 	↔	↔
Clarifies definition of exposures backed by the U.S. government to include items insured or otherwise guaranteed by the FDIC or National Credit Union Administration (NCUA) (applies to advanced approach as well).	↔	↔
Advanced approach		
Classifies defaulted exposures into two categories: <ul style="list-style-type: none"> • Not covered by an eligible U.S. government guarantee, which receives 100% RW • Covered by an eligible U.S. government guarantee, which receives 20% RW 	↓	↔
Expands 10% loss given default (LGD) floor exemption to include residential mortgage exposures that have a contingent guarantee by the U.S. government or an agency.	↔	↔
Clarifies that pre-sold construction loans are included under “assets not included in a defined exposure category” (assigns a 50% RW unless it is a cancelled purchased contract in which case it receives 100% RW).	↔	↔

Basel I capital treatment is retained in light of industry concerns. This is a significant win for the mortgage industry– more favorable capital treatment and significantly reduced implementation burden.

Wholesale

Wholesale requirements largely remain the same in final rules

Key changes for advanced banks	Capital impact	Implementation impact
Standardized approach		
Revises definition of HVCRE exposures to exclude certain acquisition, development and constructions (ADC) loans that facilitate certain community development projects as well as loans secured by agricultural land (applies to advanced approach as well).	↓	↔
Retains the Basel I 120-day safe harbor in the definition of credit-enhancing representations and warranties on assets sold, i.e., no capital requirement for those with early default clauses or premium refund clauses.	↓	↔
Clarifies definition of exposures backed by the U.S. government to include items insured or otherwise guaranteed by the FDIC or NCUA (applies to advanced approach as well).	↔	↔
Clarifies risk weights for exposures to non-U.S. entities with no CRC: <ul style="list-style-type: none"> • OECD member with no CRC receives 0% RW (for exposures to non-U.S. sovereign) • OECD member with no CRC receives 20% RW (for exposures to depository institutions, foreign banks, and credit unions) • OECD member with no CRC receives 50% RW for revenue obligations and 20% RW for general obligations to non-U.S. public sector entities (PSEs) • Non-OECD member with no CRC receives 100% RW for exposures to non-U.S. sovereigns, depository institutions, foreign banks, credit unions, and PSEs 	↔	↔
Advanced approach		
Definition of eligible guarantor is largely unchanged from NPR and is more restrictive than current Basel II definition. Specifically, the requirement to have issued and unsecured investment grade debt may render many guarantors ineligible.	↑	↑
Classifies defaulted exposures into two categories: <ul style="list-style-type: none"> • Not covered by an eligible U.S. government guarantee, which receives 100% RW • Covered by an eligible U.S. government guarantee, which receives 20% RW 	↔	↔
Clarifies that pre-sold construction loans are included under “assets not included in a defined exposure category” (assigns a 50% RW unless it is a cancelled purchased contract in which case it receives 100% RW).	↔	↔

The eligible guarantor definition may have an unfavorable impact on commercial and middle market portfolios, as many of the guarantors will no longer qualify against the investment grade debt criteria.

Counterparty

Several changes introduced to align cleared transactions with the BCBS CCP interim framework

Key changes for advanced banks	Capital impact	Implementation impact
Standardized and advanced approaches		
For supervisory haircut table, reduces haircut percentages for non-sovereign issuers of debt securities that receive 100% RW. Haircut percentages now range from 4% - 16% depending on residual maturity, instead of a flat 25%.	↓	↔
Over-the-counter (OTC) derivatives change introduces a current exposure model (CEM) exposure at default (EAD) scaling factor for client clearing transactions (OTC derivative transactions between a clearing member and a clearing member client) to reflect shorter close-out period.	↓	↔
Changes to default fund contribution capital requirements: <ul style="list-style-type: none"> Includes wider netting benefits (method 1) in calculating required capital for counterparty credit risk (KCCP) by providing adjusted factors in the calculation of EAD Clarifies that where default fund contributions to CCPs are unlimited, the agencies will determine a risk-weighted asset amount for such default fund contributions Introduces a new method (method 2) to calculate RWA for default fund contributions to align with BCBS 	↓	↓
For advanced CVA calculations: <ul style="list-style-type: none"> Clarifies that CVA RWA is calculated at a portfolio level and not a counterparty level Clarifies where LGDMKT or proxy information is unavailable, a conservative estimate may be used pending agency approval Divides advanced CVA formula into two parts to indicate that they are used for calculating CVA VaR (Formula 3) and CVA for each credit spread simulation scenario (Formula 3a) 	↔	↑
Changes to cleared transaction capital requirements : <ul style="list-style-type: none"> Clarifies that a 2% risk weight is applicable to a clearing member banking organization's exposures when the clearing member banking organization guarantees qualifying central counterparties (QCCP) performance Clarifies that QCCP is an eligible guarantor 	↔	↔
Changes to internal model methodology (applicable to advanced approach only): <ul style="list-style-type: none"> Introduces five-day margin period of risk for clearing member bank exposures to clearing member clients Clarifies that the add-on is computed as the expected increase in the netting set's exposure over the margin period of risk in the second "shortcut" method under effects of collateral agreements on EAD 	↔	↔

Requirements for cleared transactions now consistent with the BCBS CCP interim framework; lower capital requirements introduced for client transactions that offset CCP transactions to incentivize client clearing.

Securitization

Several securitization clarifications introduced in final rules

Key changes for advanced banks	Capital impact	Implementation impact
Standardized approach and advanced approach		
In case of customer-sponsored special purpose entities (SPEs), clarifies off-balance sheet amounts for securitization exposure should be full amount that may be drawn (instead of maximum potential amount based on current underlying assets).	↑	↔
Clarifies treatment of credit derivatives that reference securitization exposures and credit derivatives with securitization SPE counterparties, including extending the 100% RW treatment to qualifying senior purchased credit derivatives .	↓	↓
Simplified supervisory formula approach (SSFA) calculation parameter W updated to exclude certain deferred payments from its delinquencies criteria: <ul style="list-style-type: none"> Federally guaranteed student loans Consumer loans, provided that deferrals are pursuant to provisions provided at original contract date and not initiated based on changes in the creditworthiness of the borrower 	↓	↔
Refines definition of re-securitization exposures to exclude: <ul style="list-style-type: none"> Exposures comprised of a single asset that has been re-tranched (i.e., re-securitized real estate mortgage investment conduits (Re-REMICS)) Pass-through securities that have been pooled together and re-issued as tranching securities Certain pool-specific liquidity facilities 	↓	↔
Revised eligible guarantor definition is largely unchanged from proposed rule and replaces the eligible securitization guarantor definition from Basel II.	↔	↔
Refines definition of a traditional securitization exposure to exclude governmental plans and clarifies definition of both gain-on-sale and ineligible servicer cash-advance facilities.	↔	↔
Amends requirements for use of data to determine SSFA parameters. Data used must be most currently available data (instead of no more than 90 days, as proposed),. The exception is for exposures that feature payments on a monthly or quarterly basis, where the final rule still requires the data to be no more than 91 days old.	↔	↔

No major changes to supervisory formula approach (SFA) and SSFA calculations; hierarchies and due diligence requirements remain the same as well. More regulatory scrutiny may be applied to banks for justifying not using SFA.

Equity

Equity requirements largely remain the same in final rules

Key changes for advanced banks	Capital impact	Implementation impact
Standardized approach and advanced approach		
Retains NPR approach for modified look-through treatment for investment fund exposures (especially, 1250% RW for the full securitization limit allowed in a fund's prospectus).	↑	↑
For the standardized approach only , includes a 20% risk-weight floor for all investment funds.	↑	↔
Clarifies treatment of stable value protection: <ul style="list-style-type: none"> • If a bank purchases stable value protection, it must treat a portion as an exposure to the provider of the protection and the remaining portion as an equity exposure to an investment fund • If a bank provides stable value protection, it must treat the exposure as if it were an equity derivative on an investment fund 	↑	↔

No change to modified look-through approaches for investment funds, which remains an implementation challenge and potential high capital impact (especially for bank-owned life insurance (BOLI) portfolios).

NPR highlights

- Supplementary leverage ratio NPR
- Market risk NPR

Supplementary leverage ratio NPR

Increases minimum ratio for insured depository institutions and BHCs

Key changes for advanced banks	Capital impact	Implementation impact
Supplementary leverage ratio and leverage buffer		
Raises the minimum supplementary leverage ratio of "well-capitalized" insured depository institutions (IDIs) to 6%. (See PCA categories in table below.)	↑	↔
Introduces a leverage buffer for BHCs raising the ratio to 5% (minimum 3% + 2% buffer). Failure to meet minimum 5% would result in restrictions on discretionary bonus payments and capital distributions. (See maximum leverage payout ratios in table below.)	↑	↔
No proposed changes to the total leverage exposure denominator within the ratio (which remains a non-risk-based measure of both on-and-off-balance sheet exposures relative to tier 1 capital). However, BCBS is currently revisiting calibration of the denominator components.	↔	↔
Effective date for compliance remains January 2018, but banks need to publicly disclose the actual ratio beginning 2015.	↔	↑

Proposed supplementary leverage ratio for IDIs

PCA category	Generally applicable leverage ratio (%)	Supplementary leverage ratio (%)	Proposed supplementary leverage ratio for IDIs (%)
Well capitalized	≥ 5	Not applicable	≥ 6
Adequately capitalized	≥ 4	≥ 3	≥ 3
Undercapitalized	< 4	< 3	< 3
Significantly undercapitalized	< 3	Not applicable	Not applicable
Critically undercapitalized	Tangible equity to total assets ≤ 2	Not applicable	Not applicable

Proposed BHCs' maximum leverage payout ratio

BHC leverage buffer (LB)	Maximum leverage payout ratio (as % of eligible retained income)
2.0% < LB	No payout ratio limitation applies
1.5% < LB ≤ 2.0%	60%
1.0% < LB ≤ 1.5%	40%
0.5% < LB ≤ 1.0%	20%
LB ≤ 0.5%	0%

Agencies are continuing to work with the BCBS to assess the denominator of the supplementary leverage ratio, particularly calibration of repo-style transactions and collateral.

Market risk NPR⁴

Aligns the treatment of certain items with the treatment updates in final rules

Key changes for advanced banks	Capital impact	Implementation impact
Standardized approach and advanced approach		
Amends the definition of covered positions to include a position in an investment company that is not publicly traded, provided that all the underlying equities held by the investment company are publicly traded.	↔	↔
Clarifies risk weights for exposures to non-U.S. entities with no CRC: <ul style="list-style-type: none"> • OECD member with no CRC receives 0% RW (for exposures to non-U.S. sovereign) • OECD member with no CRC receives 20% RW (for exposures to depository institutions, foreign banks, and credit unions) • OECD member with no CRC receives 50% RW for revenue obligations and 20% RW for general obligations to non-US PSEs • Non-OECD member with no CRC receives 100% RW for exposures to non-U.S. sovereigns, depository institutions, foreign banks, credit unions, and PSEs 	↔	↔
SSFA calculation parameter <i>W</i> updated to exclude certain deferred payments from its delinquencies criteria: <ul style="list-style-type: none"> • Federally guaranteed student loans, • Consumer loans, provided that deferrals are pursuant to provisions provided at original contract date and not initiated based on changes in the creditworthiness of the borrower 	↓	↔
Clarifies timing of market risk disclosures: <ul style="list-style-type: none"> • Quantitative disclosures after each calendar quarter • Qualitative disclosures at least annually, provided any significant changes must be disclosed in the interim 	↔	↔

⁴The Market Risk NPR conforms the Fed's current market risk rule to the Basel III rules.

No major changes outside of alignment and clarifying the timing of disclosures.

An additional look ahead

An array of new international and U.S. capital related regulations are in the pipeline

Future U.S. capital related regulation updates

Finalized Basel III supplementary leverage ratio

Orderly Liquidation Authority

Basel III liquidity rule

SIFI capital buffer rule (global and domestic)

Short-term wholesale funding

Single-counterparty limits

Basel III impact on comprehensive capital analysis and review (CCAR)

Finalized Volcker Rule

Finalized enhanced prudential standards

Finalized Basel III market risk rule

Basel III updates to Federal Financial Institutions Examination Council 101/102 reports

Basel III updates to Call Report/FR-Y9C reports

Future Basel Committee's capital reforms

Leverage ratio

Trading book review

Derivatives and cleared transactions

Securitization capital framework

Interest rate risk in the banking book

Equity investment funds

Standardized approach review

Assessment of implementation consistency across jurisdictions

Review of allowance for loan and lease loss (ALLL) and expected credit loss (ECL)

**Additional accounting changes
may also impact capital ratios**

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