October 21, 2014

The Honorable Tim Johnson
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Jeb Hensarling
Chairman
The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

Subject: Department of the Treasury, Office of the Comptroller of the Currency; Federal Reserve System; Federal Deposit Insurance Corporation: Regulatory Capital Rules: Regulatory Capital, Revisions to the Supplementary Leverage Ratio

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Department of the Treasury, Office of the Comptroller of the Currency (OCC); Federal Reserve System (the Board); Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) entitled “Regulatory Capital Rules: Regulatory Capital, Revisions to the Supplementary Leverage Ratio” (RINs: 1557-AD81; 7100-AD16; 3064-AE12). We received the rule on October 6, 2014. It was published in the Federal Register as a final rule on September 26, 2014. It was published in the Federal Register as a final rule on September 26, 2014. 79 Fed. Reg. 57,725.

The final rule revises total leverage exposure as defined in the 2013 revised capital rule to include the effective notional principal amount of credit derivatives and other similar instruments through which a banking organization provides credit protection (sold credit protection), modifies the calculation of total leverage exposure for derivative and repo-style transactions, and revises the credit conversion factors applied to certain off-balance sheet exposures. The final rule also changes the frequency with which certain components of the supplementary leverage ratio (SLR) are calculated and establishes the public disclosure requirements of certain items associated with the supplementary leverage ratio.

The final rule applies to all banks, savings associations, bank holding companies, and savings and loan holding companies (banking organizations) that are subject to the agencies’ advanced approaches risk-based capital rules, as defined in the 2013 revised capital rule (advanced approaches banking organizations), including advanced approaches banking organizations that are subject to the enhanced supplementary leverage ratio standards that the agencies finalized in May 2014 (eSLR standards). Consistent with the 2013 revised capital rule, advanced approaches banking organizations will be required to disclose their supplementary leverage.
ratios beginning January 1, 2015, and will be required to comply with a minimum supplementary leverage ratio capital requirement of 3 percent and, as applicable, the eSLR standards beginning January 1, 2018.

Enclosed is our assessment of the agencies' compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that the agencies complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Mary H. Gottlieb
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    Department of the Treasury
(i) Cost-benefit analysis

The agencies did not include a cost-benefit analysis in the final rule as published in the Federal Register. However, OCC did prepare a cost-benefit analysis as part of its impact assessment for the final rule, which was included in the docket for the rule at http://www.regulations.gov, Docket ID OCC-2014-0008.

OCC estimates that the cost of raising additional equity capital associated with the final rule’s changes to the denominator of the SLR (referred to as total leverage exposure) is likely to be approximately $76 million per year. This cost reflects the tax benefits lost when banks substitute additional equity capital for debt to meet the new minimum capital standards established by the final rule. For banks where the SLR is the binding regulatory capital constraint, OCC estimates that OCC-supervised institutions will have to increase tier 1 capital by approximately $38 billion, of which approximately $13.5 billion is related to the final rule. OCC estimates that additional operational costs associated with the calculation of total leverage exposure, as defined by the final rule, will be approximately $478,400. OCC estimates the overall cost of the final rule is approximately $77 million per year. While OCC does not expect the final rule to have an adverse effect on financial markets generally, it could affect demand for certain assets to the extent that covered banks adjust their portfolios to maximize profits under the revised total leverage exposure constraint.

On the benefits side, OCC states that because the final rule effectively increases the amount of tier 1 capital in the U.S. banking system, the final rule would (1) increase the amount of private capital held by some top-tier U.S. advanced approaches banking organizations and the six OCC-supervised insured depository institutions they control, (2) increase the likelihood that loss-absorbing capital in the U.S. banking system will dampen negative economic shocks as they pass through the U.S. financial system, (3) help mitigate the threat to financial stability posed by large banking organizations, (4) place additional private capital ahead of the deposit insurance fund and the federal government’s resolution mechanisms, and (5) bring the U.S. version of the SLR into closer alignment with the international leverage ratio framework.

(ii) Agency actions relevant to the Regulatory Flexibility Act (RFA), 5 U.S.C. §§ 603-605, 607, and 609

OCC and FDIC certified that the final rule will not have a significant economic impact on a substantial number of OCC-supervised and FDIC-supervised small entities, respectively.
The Board provided a final regulatory flexibility analysis in conjunction with the final rule. The small entities covered by the final rule include depository institutions, bank holding companies, or savings and loan holding companies with total assets of $550 million or less. As of June 30, 2014, there were approximately 657 small state member banks, 3,716 small bank holding companies, and 254 small savings and loan holding companies. The final rule applies only to advanced approaches banking organizations, which, generally, are banking organizations with total consolidated assets of $250 billion or more, that have total consolidated on-balance sheet foreign exposure of $10 billion or more, are a subsidiary of a depository institution that uses the advanced risk-based capital approaches framework, or that elect to use the advanced risk-based capital approaches framework. The Board expects that any small bank holding companies, savings and loan holding companies, or state member banks that would be covered by this final rule would rely on its parent banking organization for compliance and would not bear additional costs. The Board stated that it believes the final rule will not have a significant economic impact on small banking organizations supervised by the Board, and therefore the Board believes that there are no significant alternatives to the final rule that would reduce the economic impact on small banking organizations supervised by the Board.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995 (UMRA), 2 U.S.C. §§ 1532-1535

OCC determined that the final rule will not result in expenditures by state, local, and tribal governments, or by the private sector, of $100 million or more. Therefore, OCC did not prepare an UMRA analysis to accompany the final rule.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

On May 1, 2014, the agencies published a joint notice of proposed rulemaking in the Federal Register. 79 Fed. Reg. 24,596. The agencies received 14 public comments from banking organizations, trade associations representing the banking or financial services industry, an options and futures exchange, a supervisory authority, a public interest advocacy group, three private individuals, and other interested parties. The agencies discussed and responded to the comments in the final rule. 79 Fed. Reg. 57,725.

Paperwork Reduction Act (PRA), 44 U.S.C. §§ 3501-3520

The final rule contains information collection requirements under the Paperwork Reduction Act (PRA). In accordance with PRA, the agencies may not conduct or sponsor, and a respondent is not required to respond to, an information collection requirement unless it displays a currently valid Office of Management and Budget (OMB) control number. OCC and FDIC will be seeking new OMB control numbers, while the Board has OMB Control Number 7100-0313, which will be extended with revision. OCC estimates that there will be 26 respondents to its request, with a total estimated annual burden of 520 hours. FDIC estimates that there will be 8 respondents to its request, with a total estimated annual burden of 160 hours. The Board estimates that there will be 20 respondents to its request, with an estimated annual burden—based on the revisions—of 400 hours, which will result in the total annual burden associated with the OMB control number increasing from 413,986 hours to 414,386 hours.
Statutory authorization for the rule

The final rule is authorized by various sections of title 12 of the United States Code. 12 U.S.C. 93a, 248(a), 321-338a, 481-486, 1462, 1462a, 1463, 1467a, 1815a, 1815(b), 1816, 1818, 1819(tenth), 1828, 1831n, 1831o, 1831p-l, 1831w, 1835, 1844(b), 1851, 3904, 3906-3909, 4808, 5365, 5368, 5371, 5412, 18310, and 5312(b)(2)(B).

Executive Order No. 12,866 (Regulatory Planning and Review)

The Executive Order does not apply to independent regulatory agencies as defined by 44 U.S.C. § 3502. OCC, the Board, and FDIC are all independent regulatory agencies under 44 U.S.C. § 3502.

Executive Order No. 13,132 (Federalism)

The Executive Order does not apply to independent regulatory agencies as defined by 44 U.S.C. § 3502. OCC, the Board, and FDIC are all independent regulatory agencies under 44 U.S.C. § 3502.