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Washington, DC 20548

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May 29, 2014

The Honorable Tim Johnson
Chairman
The Honorable Michael D. 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, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions*

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 (Board); and Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) entitled "Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions" (RINs: 1557-AD69, 7100-AD 99; 3064-AE01). We received the rule on May 14, 2014, from FDIC and May 20, 2014, from OCC. It was published in the *Federal Register* as a final rule on May 1, 2014. 79 Fed. Reg. 24,528.

The final rule strengthens the agencies' supplementary leverage ratio standards for large, interconnected U.S. banking organizations. The final rule applies to any U.S. top-tier bank holding company (BHC) with more than \$700 billion in total consolidated assets or more than \$10 trillion in assets under custody (covered BHC) and any insured depository institution (IDI) subsidiary of these BHCs (together, covered organizations). Under the final rule, an IDI that is a subsidiary of a covered BHC must maintain a supplementary leverage ratio of at least 6 percent to be well capitalized under the agencies' prompt corrective action (PCA) framework. The Board also is adopting in the final rule a supplementary leverage ratio buffer (leverage buffer) for covered BHCs of 2 percent above the minimum supplementary leverage ratio requirement of 3 percent. A covered BHC that maintains a leverage buffer of tier 1 capital in an amount greater than 2 percent of its total leverage exposure is not subject to limitations on distributions and discretionary bonus payments under the final rule. The final rule is effective 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: John Vilela
Program Specialist, LRAD
Office of the Comptroller of the Currency
Department of the Treasury

Eric J. Spitler
Director, Office of Legislative Affairs
Federal Deposit Insurance Corporation

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
DEPARTMENT OF THE TREASURY,
OFFICE OF THE COMPTROLLER OF THE CURRENCY,
FEDERAL RESERVE SYSTEM,
FEDERAL DEPOSIT INSURANCE CORPORATION
ENTITLED
"REGULATORY CAPITAL RULES: REGULATORY CAPITAL,
ENHANCED SUPPLEMENTARY LEVERAGE RATIO STANDARDS
FOR CERTAIN BANK HOLDING COMPANIES AND
THEIR SUBSIDIARY INSURED DEPOSITORY INSTITUTIONS"
(RINS: 1557-AD69, 7100-AD 99; 3064-AE01)

(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-2013-0008.

OCC estimates that the annual cost associated with the final rule is likely to fall in the range of \$471 million per year to \$697 million per year. This range reflects the tax benefits lost switching from debt financing to equity financing for the additional capital amounts OCC estimates that institutions affected by the rule will need to hold. Using recent data, OCC estimates that affected institutions are well on their way to meeting the new fully phased-in requirement and that the additional capital needed by OCC-supervised institutions relative to tier 1 capital reported in the fourth quarter of 2013, will be between \$34 billion and \$68 billion. OCC estimates that the overall cost of the final rule is reflected in the capital costs and will likely fall between \$471 million and \$697 million per year. On the benefits side, OCC determined that the final rule would (1) increase the amount of private capital held by top-tier U.S. bank holding companies and the 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 systemically important banking organizations, (4) place additional private capital ahead of the deposit insurance fund and the federal government's resolution mechanisms, and (5) offset possible funding cost advantages that some institutions may enjoy as a result of real or perceived implicit federal support.

(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 or bank holding companies with total assets of \$500 million or less. As of December 31, 2013, there were 627 small state member banks and approximately 3,676 small bank holding companies. The Board determined

that no small top-tier bank holding company would meet the threshold provided in the final rule, and therefore there would be no additional projected compliance requirements imposed on small bank holding companies. The Board determined that one covered bank holding company has one small state member bank subsidiary, which would be covered by the final rule. The Board stated that it expects any small banking organization covered by the final rule would rely on its parent banking organization for compliance and would not bear additional costs. As a result, the Board concluded that it believes that the final rule will not have a significant economic impact on small banking organizations supervised by the Board, and thus no significant alternative 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, 2 U.S.C. §§ 1532-1535

OCC determined that the final rule is likely to result in expenditure by the private sector of \$141 million or more. OCC prepared a budgetary impact analysis and identified and considered alternative approaches. OCC made the full text of the analyses available in the docket for the rule at <http://www.regulations.gov>, Docket ID OCC-2013-0008.

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

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

On August 20, 2013, the agencies published a joint notice of proposed rulemaking in the *Federal Register*. 78 Fed. Reg. 51,101. The agencies received approximately 30 public comments from banking organizations, trade associations representing the banking or financial services industry, supervisory authorities, public interest advocacy groups, private individuals and Members of Congress. The agencies discussed and responded to the comments in the final rule. 79 Fed. Reg. 24,528.

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

The final rule does not contain any new collection of information under the Paperwork Reduction Act.

Statutory authorization for the rule

The final rule is authorized by section 165 of the Dodd Frank Act, as well as various other acts in title 12 of the U.S. Code. 12 U.S.C. §§ 1831o, 3901-3911, 5365, and 5371.

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.